



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Walesh

SUBJECT: NORTH SAN JOSE RETAIL
AND AMENITY STRATEGY

DATE: April 26, 2017

Approved D. D. Syl

Date 4/27/17

COUNCIL DISTRICT: 3 & 4

RECOMMENDATION

Accept staff's report on retail and amenity development in North San Jose and direct staff to:

1. Implement the North San Jose Retail and Amenity Strategy
2. Return to Council to amend Title 20 of the San José Municipal Code and the North San Jose Area Development Policy to:
 - a. Allow local-serving retail commercial uses in the IP Industrial Park Zoning District within the North San Jose Area Development Policy Area; and
 - b. Allow greater flexibility to temporary retail and amenity uses within the North San Jose Area Development Policy Area.

BACKGROUND

The North San Jose area plays a vital role in the achievement of San Jose's General Plan goals. In 2005, the City adopted the North San Jose Area Development Policy (the Policy), which revised an established policy framework to guide the ongoing intensification of mixed-use development in this important employment center and innovation district.

The Policy provides for a specified amount of new development, including an additional 26.7 million square feet of new office/R&D development, as well as 32,000 residential units, 2.7 million square feet of retail development and 1,000 hotel rooms over four phases. The full amount of development authorized under Phase 1 is not yet complete. Almost all of the 8,000 units of residential development in Phase 1 have been constructed, but there is still approximately 8 million square feet of industrial that remains to be developed.

On August 30, 2016, Council directed staff to develop a list of recommendations to spur development of much-needed amenities, such as retail, recreation, restaurants, and athletic facilities, on or adjacent to corporate campuses in the area.

This memorandum presents staff's recommended strategy to enable more retail and amenity development in the area. To support the creation of this workplan, staff hired Strategic Economics, a well-respected economics and land-use firm, for data-driven analysis about existing demographics, retail trends, and potential next steps to further enhance amenities in North San Jose. Staff worked closely with Strategic Economics on the development of a final written report outlining the findings; the report is attached to this memorandum.

In addition to this consultant contract, staff has received insights from Urban Land Institute (ULI), property owners, corporate tenants, and commercial real estate brokers throughout the process, which includes their thoughts, needs and visions for North San Jose. The input and feedback from these activities have been considered in the production of this report and the development of the staff recommendation.

ANALYSIS

The goal of this retail and amenity strategy is to support the attraction and retention of young tech talent, who consider an amenity-rich environment critical to their choice of where to work. Employee preferences continue to change over time, impacting corporate location decisions, and in turn where developers are interested in investing. Millennial tech workers continue to demonstrate a growing preference for food, personal services, and entertainment close to their place of work. These amenities include fitness centers, bike repair, dry cleaning, banking, small-scale medical office, cafes and juice bars, restaurants, and coffee bars.

To meet some of this demand, employers and property developers have been redeveloping traditional industrial spaces into creative office environments that include the types of amenities that attract a young dynamic workforce: shared workspaces, "third" (or collaborative) spaces, gourmet cafeterias, and other outdoor amenities such as fire pits and bocce ball courts.

North San Jose is the City's premier employment center and represents a significant opportunity for growth under the General Plan. Over the past 10 years, the area has experienced extensive residential development as part of the buildout of Phase 1 of the North San Jose Area Development Policy, with the construction of almost 8,000 new residential units. Yet the area remains relatively underserved by retail amenities to serve the residential and workforce population. To realize its full potential, North San Jose must transition into a place that attracts top talent and employers, and brings together a wide range of amenities, including recreation, retail, and restaurants, that support its diverse population of residents and workers. Staff has worked with a number of stakeholders and subject matter experts to develop a strategy that addresses these challenges and opportunities and lays out actions over the short- mid- and long-term to direct activity and investment to support these goals.

Staff's proposed five-part strategy involves short medium and long term activities that include:

1. Remove regulatory barriers to additional retail in North San Jose.
2. Promote North San Jose retail opportunities, locally and externally.
3. Engage local employers and property owners to support development of amenities and physical improvements to North San Jose.
4. Improve mobility within North San Jose between retail nodes, employers, residents and other amenities by walking, biking, and transit.
5. Refine the North San Jose Area Development Policy to support development that provides for or attracts retail and amenity uses.

Existing Conditions

The Policy includes capacity for 1.7 million square feet of local-serving, smaller-format retail, and up to 1 million square feet of large-format (over 100,000 square feet) regional retail. The Policy does not limit the amount of commercial retail development that can occur in any particular phase. New retail development has come in the form of large-format retailers (Target and Lowes), largely auto-oriented retail centers (North 1st Street at 237 and Brokaw Road at 880), and smaller retail spaces integrated into new residential development (generally between 5,000 and 10,000 square feet). While these developments have contributed approximately 500,000 square feet of new commercial development, the large size of the area means that retail and restaurant amenities remain dispersed. The absence of critical mass around key intersections or nodes creates a lack of amenity destinations or "places" throughout the area.

The area already has a significant number of assets that can support the development of new destinations or places. In addition to the nearly 8,000 new residential units, the area is home to more than 90,000 daytime workers in driving industries. Major employers include Cisco, Samsung Semiconductor, Maxim Integrated, PayPal and Brocade. The area boasts good freeway visibility from US 101, and Highways 880 and 237. Transit is well represented: VTA's light rail system offers 11 stations and headways of 10 minutes throughout the workday, which provide good access to Downtown San Jose, Caltrain, Amtrak's Capitol Corridor and the Altamont Corridor Express, as well as BART later this year. The development of new apartment communities has created over 17 acres of new neighborhood parks have been developed since 2012, with over 37 acres planned in the future. New retail and food service has been integrated into these residential communities. Examples include Lalla Grill, Pokeworks, Ichin's Bamboo Garden, Curry Up Now, Paxti's Pizza, Juerga's Tapas, Honeyberry, SAJJ Mediterranean, Rok Steakhouse and Faz.

At the same time, North San Jose also has some challenges that will need to be considered in creating an amenity-rich environment attractive to new development. North San Jose is a large area still characterized by low-density industrial development and major arterial streets, which does not create the type of vibrant walkable "great place" sought by many employers and employees. Due to the existing land-use pattern, new residential development has been inwardly focused away from the street, moving activation towards private open space and interior

courtyards. Retail uses that have developed along with new residential development are in smaller disparate pockets, which - due to the large land area - creates the perception that there is little or no retail in North San Jose. Recent renovations to older buildings have focused on creating innovative workspaces that include private indoor/outdoor amenity spaces, encouraging workers to stay on site and not patronize surrounding retail. Larger employers provide onsite dining options that serve only their employees (with the exception of Samsung), which also keeps their workers on site. New standalone retail development has focused on auto-oriented centers on the periphery (close to freeways). This typology attracts national credit-tenant retailers, but it has detracted from the development of more centralized retail opportunities. It's hard to walk in North San Jose as existing sidewalks are generally narrow, unshaded, and frequently meandering, block and parcel sizes are large, and land uses are spread out, combining to create a barrier to comfortable pedestrian movement.

Outreach and Engagement

In addition to staff's own analysis of the existing conditions in North San Jose, a variety of stakeholders, experts, developers, and employers were engaged to gain their understanding of the retail and amenity dynamic in the area. The result of this outreach and the support of subject matter experts has been incorporated into staff's recommended workplan.

Strategic Economics - In September of 2016, OED and PBCE engaged Strategic Economics to perform a retail analysis in North San Jose. Strategic Economics' scope of work included 1) providing a summary of the existing retail market conditions in the North San Jose Area; 2) identifying "missing" retailers; 3) identifying future retail sites, and 4) completing an analysis of the North San Jose Area Development Policy to identify any opportunities or barriers for future retail and amenity development. The results of Strategic Economics analysis provide important insights into the existing conditions and opportunities facing North San Jose, and is attached for reference.

Rose Center for Public Leadership in Land Use - The Rose Center for Public Leadership in Land Use selected San Jose to participate in its fellowship program for 2017. The program provided San José with technical assistance on transforming North San José into a vibrant, urban, mixed-use employment district. During the week of February 14, 2017, a delegation of relevant subject matter experts toured the area, met with various stakeholders, and received briefings from City staff. The panel developed opportunities existing in North San Jose, and then gave recommendations for follow-up actions that the City should consider.

Employer and Developer Outreach - To support Council direction to staff to develop a retail strategy, the Mayor and Councilmember Diep hosted a roundtable of representatives from North San Jose corporations, development and investor communities and other stakeholders. The meeting included representatives from companies including Cisco, Samsung, PayPal, Bentek, Bestronics, and CalWater; and developers including Boston Properties, South Bay Development, and Irvine Company.

Key Research Insights: North San Jose Retail

Based on the analysis by staff and contributions through the outreach and engagements outlined above, the retail and amenity strategy has taken into account several key considerations that affect the future build out of new commercial uses throughout the area.

- North San Jose has a considerable supply of retail space and services; however, because the retail is dispersed over a large geographic area and is mostly auto-oriented, employers do not perceive the existing retail as a sufficient amenity.
- Consistent with national trends, North San Jose employers—especially those dependent on young talent—seek workspace locations that offer opportunities for employees to socialize and interact in restaurants, cafes, outdoor public spaces, and other commercial settings like health/fitness venues and varied entertainment. Ideally, these are within walking distance from work—reached quickly mid-day or after work.
- Although large employers typically provide amenities inside their facility, even large NSJ employers want more vibrancy and services within walking distance. And, NSJ currently has and can accommodate many more mid-size and start-up companies who will be dependent on the district for services.
- Given the large regional-service retail centers in Milpitas and Santa Clara (current and proposed), the opportunity for North San Jose is the kind of smaller-scale retail and amenity centers that support the local workers and residents—rather than large lifestyle centers. This means food and beverage, lifestyle services (fitness, personal services), and active outdoor gathering spaces.
- Retail will work best at ‘node’ locations that have proximity to employers and residents within walking distance and the strongest traffic volumes. Retail can happen in a variety of ways, including single-story retail buildings, semi-permanent shipping container facilities in underused parking lots or development sites, and retail space integrated in new office developments. The study identified four to seven opportunity sites that could develop as attractive retail and services destinations for locals.
- No Policy or Ordinance barriers exist for development of additional retail in the Core Area and Transit Employment Residential Areas.
- However, retail development in Industrial Park Areas is limited by the General Plan and Zoning Code and this should be changed. If the City allows more retail that is compatible with industrial uses (e.g., not child care), several office developers may include public-serving retail in their plans.

- Better mobility and circulation inside North San Jose—via transit, biking, and walking—would help connect employers and residents to existing and future retail nodes and amenities. The northern portion of the area currently has the highest capacity to support new retail and community amenities, due to its high concentration of day-time workers and proximity to dense residential projects. The City could look for opportunities to build a robust-bike share program and work with VTA to improve speed and use of light rail to move within the NSJ area.
- In addition to new incremental retail activity, civic investments can contribute to the overall quality of life experienced by workers and residents. This includes improved pedestrian experience, better bike facilities, activated parks and public spaces, and ultimately public facilities like school and libraries. The former Agnews Hospital site is a major opportunity to add school, civic, and public space amenities.
- In contrast to Downtown with its Downtown Association and PBID (Property Business Improvement District), North San Jose does not yet have a mechanism for employers and property owners to pool their voice and resources to invest in physical improvements and amenities development.

Allow Retail Uses in Industrial Districts

The Policy currently allows for the development of up to 2.7 million square feet of new commercial uses and 1,000 hotel rooms. This capacity is split between 1.7 million square feet of “local serving” retail, which is categorized as smaller retail or service establishments that are intended to support the industrial and residential uses within the policy area. The remaining 1 million square feet is for the development of large-scale regional retail establishments of over 100,000 square feet, that draw from a regional customer base.

General Plan Conformance for Commercial Development

When initially developed, the Policy was designed to internalize as many vehicle trips as possible to support build out of the industrial capacity. This resulted in the inclusion of the 32,000 units of residential development, and retail commercial components that would serve those other intensifying land uses, such as food service, retail, financial services, gymnasiums, and child care. The Policy strongly encourages these uses to be integrated as a part of all new residential development and also for industrial development within the Core Area. At the time of Policy adoption, the Core Area and Transit Employment Residential Overlay General Plan designations supported such mixed-use development. This emphasis is further strengthened by the adoption of the Envision 2040 General Plan, which converted the Core Area designation to Transit Employment Center. This designation supports intensive job growth and supportive commercial uses including development with retail and service commercial uses on the first two

floors; with office, research and development or industrial use on upper floors; as well as wholly office, research and development, or industrial projects.

The Policy allows for limited opportunities for mixed-use commercial development in areas designated as Industrial Park within the Policy area, but these are limited to retail and services activities that support nearby industrial and residential uses, consistent with the “General Retail, Food Service and General Service uses,” as defined in the City’s Zoning Ordinance at the time. Much of the remaining Policy area that is appropriate for these type of uses is designated Industrial Park in the General Plan, which allows for a wide variety of industrial users such as research and development, manufacturing, assembly, testing and offices. The Industrial Park designation provides for a limited number of supportive and compatible commercial uses, when those uses are of a scale and design providing support only to the needs of businesses and their employees in the immediate industrial area.

Zoning Conformance for Commercial Development

In addition to more traditional industrial and quasi-industrial uses found in North San Jose, Title 20 of the San Jose Municipal Code currently allows a broad range of commercial uses (similar to those uses found in the General Commercial Zoning District) in the Transit Employment Center and Combined Industrial Commercial Zoning Districts. For those properties that have an underlying General Plan designation that aligns with these Zoning Districts, a conforming rezoning would allow a broad range of commercial uses in either new development or existing buildings.

Currently, the Industrial Park Zoning District only allows similar commercial uses through the Commercial Support Provision (SJMC 20.50.110). This allows for limited commercial support uses, including:

- Retail
- Indoor recreation
- Personal services
- Public eating establishments
- Financial institutions
- Medical clinics
- Medical offices

These uses may be included when they are located entirely within the buildings occupied by the primary use permitted in the IP district, and limits these uses no more than ten percent of the gross floor area of the building or no more than 20,000 square feet, whichever is less.

Amend Title 20 and the NSJADP to Promote Retail and Amenities in IP

The current provisions included in Title 20 place limits on the ability of property owners and developers to create a retail environment that supports the surrounding area. As described in the

attached report, retail development, even that which has been integrated into residential development, is either auto oriented or lacks the “critical mass” sufficient to create an amenity destination. As industrial development has largely occurred outside of the Core Area, the limiting nature of the Commercial Support provision in the IP Industrial Park Zoning District will only add to the diffused nature of new integrated retail development. To promote the type of new retail development that supports the build out of the Policy Area and attracts employers and workers to the area, staff is recommending the City Council provide direction to return with amendments to the Zoning Ordinance that facilitates near-term interest in developing and/or integrating these uses into the broader area where appropriate and in a manner that is consistent with existing and future industrial uses.

The proposed amendment would provide greater flexibility in allowing retail development to occur in the IP Industrial Park Zoning District by allowing appropriate uses to occur in standalone buildings on industrial properties, removing the square-foot limit in the current provisions, and ensuring that the commercial uses do not endanger the viability of the industrial uses. Consistent with the Policy, uses would be limited to those included in the Additional Uses, Food Service, and General Service sections of Table 20-110, which describes the Industrial Districts Land Use Regulations. As these provisions are consistent with the Policy, staff recommends that the changes for North San Jose only apply within that Policy area and not to the Zoning District citywide. This means that local-serving retail development would still be limited to the 1.7 million square feet total of new commercial development, including the development that has already occurred under the Policy.

Staff also recommends that the Policy be amended to help guide the development of new commercial development, especially in those cases where the proposed project would operate similar to a standalone development. Similar to the criteria for prioritizing residential development, staff proposes developing criteria for the prioritization of proposed commercial development to be included in the Policy:

1. The proposed project is being developed proximate or adjacent to complementary commercial uses.
2. The proposed project will directly facilitate or enable the construction of a specific, related industrial development.
3. The proposed project is designed to encourage pedestrian and bicycle connectivity to surrounding uses.
4. The proposed project reflects and incorporates strong transit-oriented design elements.
5. The proposed project incorporates privately owned and maintained public open space.
6. The proposed project does not impair the continuing viability of surrounding existing and future industrial uses.

As staff prepares to bring back these changes for consideration by the City Council, additional analysis will be performed to understand the need for any additional or complimentary General Plan or Zoning Code amendments that may be necessary. These may include ensuring clarity in

the Industrial Park General Plan Designation, and ensuring that the development standards in the Industrial Park Zoning District don't inadvertently impact new retail development.

Recommended Strategy

Drawing on the input from the various experts and stakeholders that have focused on North San Jose throughout this analysis, staff is considering a strategy that takes advantage of near term interest and opportunities, builds on existing assets in the mid-term, looks to influence future development patterns in the long term, and protects the viability of industrial uses. The following strategy represents staff's proposal for encouraging retail and commercial development in North San Jose.

Strategy

1. Remove regulatory barriers to additional retail in NSJ.

- Bring forward an ordinance amending Title 20 to provide flexibility to construct more retail space, consistent with the 1.7 million square feet of local serving retail development contained within the NSJADP, including appropriate CEQA clearance for any proposed zoning amendment.
- Bring forward an ordinance amending Title 20 to provide greater flexibility for temporary retail and amenity uses within the North San Jose Area Development Policy Area, including appropriate CEQA clearance for any proposed zoning amendment.
- Encourage planned office developments to include public-serving retail, including as interim use on the development site.

2. Promote NSJ retail opportunities, locally and externally.

- Proactively reach out to local retailers and restaurateurs.
- Encourage small retail projects at key locations with available development sites, proximity to employers and residents, and high traffic counts.
- Encourage development of retail pods in underutilized parking lots.
- Through a future budget process, consider creating a dedicated North San Jose Manager position in OED to promote retail, facilitate private/public space activation, organize employers/property owners for collaborative actions, and coordinate inter-departmental activities.

3. Engage local employers and property owners to support development of amenities and physical improvements to NSJ.

- Convene employers throughout North San Jose to create a forum for collaboration and coordination of efforts around amenity attraction.

- Create a communications or social media portal that highlights events, services, and opportunities to employers in the area.
- 4. Improve mobility within North San Jose between retail nodes, employers, residents and other amenities by walking, biking, and transit.**
- Engage with VTA to assess opportunities to improve the speed of light rail service.
 - Study robust bike and other shared transportation programs (shuttles and van pools).
 - Ensure new development projects include high quality pedestrian and bike access and transit-orientation (if applicable) in addition to vehicular access.
 - Continue to expand the multi-modal street network to include emerging retail nodes in central subarea.
 - Explore opportunities to connect the Coyote Creek and the Guadalupe River Trails through a “green corridor” along River Oaks.
- 5. Over time, refine the NSJ Area Development Policy to support development that provides or attracts retail and amenity uses.**
- Consider modifications to the distribution of land uses included in the Policy to focus development into key nodes and reflect how the area has developed since Policy adoption in 2005.
 - Explore how key assets, such as the River Oaks connection between the Guadalupe River and Coyote Creek trails, could best be enhanced by new development and ensure that the Policy supports it.

EVALUATION AND FOLLOW-UP

Should City Council approve the proposed recommendation, staff will return in June or August with appropriate amendments to the North San Jose Area Development Policy and Title 20 to facilitate the proposed modifications, and appropriate CEQA clearance. Staff will provide updates on progress implementing this strategy through the Community and Economic Development Committee.

COORDINATION

The memorandum has been coordinated with the City Attorney’s Office, City Manager’s Budget Office, the Department of Planning Building & Code Enforcement, the Department of Transportation, and the Department of Parks, Recreation, and Neighborhood Services.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP10-069(a), City Organizational & Administrative Activities, Staff Reports.

/s/
KIM WALESH
Deputy City Manager
Director, Office of Economic Development

For questions please contact Chris Burton, Sr. Business Development Manager, at (408) 535-8114.

Attachment: North San Jose Retail Strategy Memorandum, Strategic Economics

North San Jose Retail Strategy

April 26, 2017

prepared for:
The City of San Jose



STRATEGICECONOMICS

TABLE OF CONTENTS

TABLE OF CONTENTS	2
TABLE OF FIGURES	2
TABLE OF TABLES	3
I. INTRODUCTION	4
II. NORTH SAN JOSE'S EXISTING CONTEXT	5
Geographic and Policy Setting	5
North San Jose Subareas.....	6
National Trends Impacting North San Jose.....	10
National Retail Trends	10
National Trends in Office Space	10
III. SOURCES OF RETAIL DEMAND IN NORTH SAN JOSE	11
Population and Employment.....	11
Other Demographic Demand indicators	15
Traffic Volumes.....	16
IV. RETAIL SUPPLY IN NORTH SAN JOSE AND THE LARGER TRADE AREA.....	18
Current Retail Inventory.....	18
Retail Real Estate Performance	23
Planned and Proposed Retail Projects and Potential Opportunity Sites for Future Retail Development	25
V. FINDINGS AND RECOMMENDED STRATEGIES	27
Summary Market Findings and Implications.....	27
Existing Market Conditions.....	27
Market Implications for the North San Jose Retail Strategy	27
Recommended North San Jose Retail Strategies	28
Short-Term Strategies (1-2 years)	28
Mid-Term Strategies (3-4 years)	29
Long-Term Strategies (5-6 years).....	30
VI. APPENDIX A.....	31

TABLE OF FIGURES

Figure II-1. North San Jose Policy Area Boundaries, within the City of San Jose	7
Figure II-2. Land Use in North San Jose, 2015	8
Figure II-3. Four North San Jose Study Subareas	9
Figure III-1. Population and Jobs in North San Jose Subareas, 2014	12
Figure III-2. Population Growth in North San Jose Subareas North, Central, and South*, 1990-2014.....	13
Figure III-3. New Housing Units in North San Jose Subareas, by Year Built*, 2014	13
Figure III-4. Employment Density in North San Jose, 2014	14
Figure III-5. Median Household Income in North San Jose and Surrounding Areas, 2014	15
Figure III-6. Educational Attainment in North San Jose and Surrounding Areas, 2014	16
Figure III-7. Average Daily Traffic Counts in North San Jose, 2005-2015	17
Figure IV-1. Existing Retail Supply in North San Jose and Surrounding Competitive Supply, 2016	20
Figure IV-2. Population and Rentable Building Area (RBA) in North San Jose Subareas as a Share of North San Jose Totals, 2014 and 2016	21

Figure IV-3. Retail Inventory by Retail Type and Subarea in North San Jose, 201622

Figure IV-4. Retail Inventory by Year Built and Subareas in North San Jose, 201622

Figure IV-5. Monthly Average Asking Retail Rent (NNN) in North San Jose Subareas, 2008-201624

Figure IV-6. Potential Opportunity Sites for Future Retail Supply in North San Jose26

TABLE OF TABLES

Table III-1. Population, Households, and Employment in North San Jose Subareas, 201412

Table IV-1. Retail Rentable Building Area (RBA) in North San Jose, by Subarea, 201621

Table IV-2. Shopping Centers by Subarea and by Year Built in the North San Jose Study Area, 201623

Table IV-3. Vacancy Rates (Percentage) in North San Jose Subareas, 2009-201624

I. INTRODUCTION

As part of the 4-year review process for the City of San Jose's General Plan, the Mayor and City Council members have directed staff to evaluate, among other topics, whether it would be possible to add more retail development in the North San Jose area, which had been characterized by the Mayor as "retail starved" in 2015. Adding more retail activity in North San Jose would serve multiple functions, including increasing the opportunity for area workers and residents to shop, eat, and engage in other entertainment related activities, as well as increasing the City's sale tax base. North San Jose is of particular significance for the General Plan, with its "jobs first" focus, because this area is the City's largest employment concentration – it is home to 90,000 jobs and some of Silicon Valley's most important technology companies.

In addition to the General Plan, development activity in North San Jose is regulated by the North San Jose Area Development Policy (NSJADP), which was adopted in its current form in 2015. The North San Jose Area Development Policy allows for a net total 26.7 million square feet of industrial development; up to 32,000 new housing units, which could be built on 285 acres of land converted from industrial to residential zoning; up to 1.7 million square feet of new local serving retail or service establishments to support the industrial and residential uses within the area; and one new regional serving retail center that would draw from a trade area beyond North San Jose. Another key function of the NSJADP is to establish the transportation improvements necessary to support this future development, including establishing funding mechanisms to pay for these improvements.

However, in the two years since the General Plan 4-year review started and the revised NSJADP was adopted, market conditions have shifted. The types of businesses that had been driving demand for space in the area are now looking for different kinds of locations, and although businesses continue to invest in North San Jose, they are becoming more concerned with workforce recruitment and retention. This concern is driving an interest in transforming North San Jose into something more than just a dense business park – instead, North San Jose could become a place with a range of amenities that could support not just a workforce, but also a life style.

Therefore, this report (1) provides a strategy for attracting more retail development to North San Jose, as is consistent with the policy objectives in the General Plan and the NSJADP, (2) suggests additional physical improvements that could be made to the area to enhance its identity as place to both work and live, and (3) identifies ways to amend the NSJADP to better respond to new market and development realities.

In addition to this introduction, the report has four additional sections. Section II provides the existing context in North San Jose that sets the stage for future development opportunities. This is followed by Section III, which identifies the sources of existing demand for future retail development in North San Jose, and by Section IV, which characterizes the existing, planned, and proposed competitive retail supply both in North San Jose and in the general trade area. Section V concludes the report with the overall findings and recommended strategies for short, mid, and long-term horizons.

II. NORTH SAN JOSE'S EXISTING CONTEXT

GEOGRAPHIC AND POLICY SETTING

North San Jose is a 4,850-acre area bordered by Highway 237 to the North, Coyote Creek to the East, the Guadalupe River to the West, and Highway I-880 to the South. The area also includes a smaller section east of Interstate 880 along Murphy Avenue, extending to Lundy Avenue. Figure II-1 shows the area's exact boundaries. This figure also shows the boundaries for other subareas within the City which will be part of a broader Citywide retail strategy to be completed in the fall of 2017.

One of North San Jose's greatest strengths is its connection to the regional transportation infrastructure. The area is located adjacent to the Norman Y. Mineta San José International Airport and is bounded by multiple major highways that provide direct access to the rest of Silicon Valley, San Francisco, and East Bay communities. Multiple VTA light-rail stations also connect area residents and workers directly to Downtown San Jose. Furthermore, the area has relatively easy access to two existing Caltrain stations and two future BART stations (Berryessa and Alumn Rock), all of which provide even greater regional connectivity.

North San Jose is a regionally significant employment district specializing in high tech manufacturing, as well as software/information, technical, and creative professional services. The area includes a wide range of building types including industrial, office, and R&D product types and is home to large employers like Cisco, Samsung, Brocade, and Ericsson. As such, North San Jose was designated as one of San Jose's key employment areas in the City's General Plan, *Envision San Jose 2040*¹. Over the last two decades, North San Jose has also had significant new mid to high-density residential development projects, particularly along N 1st St between Highway 237 and River Oaks Parkway, along Tasman Drive, and along River Oaks Parkway. Figure II-2 shows current land use in North San Jose.

Given North San Jose's strategic position as a major employment cluster and the pressure to allow properties to convert from employment to residential uses, in 2005 the City adopted the North San Jose Area Development Policy (NSJADP) to establish and implement a "unique vision for the area". The NSJADP "governs new development and mitigation, establishing a specific procedure for the allocation and timing of development capacity within the policy area"². In brief, the policy permits development incrementally in four phases, with specific construction thresholds by use type that must be met before a subsequent phase is permitted to begin. In total, the policy accommodates 26.7 million square feet of new office/ R&D development (7 million sq. ft per phase), 32,000 residential units (8,000 units per phase), 2.7 million square feet of retail, and 1,000 hotel rooms.

Given that one key goal of the NSJADP is to "add new housing and new retail development in close proximity to new jobs, amenities, and transit", the policy apportions more than half of the total retail allotment (1.7 million sq. ft.) to "local serving" commercial uses. These are defined as retail and services activities of 100,000 square feet or less intended to support the industrial and residential development. The remaining 1 million sq. ft. of retail is envisioned for regional / "large-scale" establishments, defined as retail with a single-occupant greater than 100,000 sq. ft., or hotels. Per the phasing rational/framework for the policy, a minimum of 100,000 sq. ft. of new retail is required per phase.

¹ The Rose Center for Public Leadership (2017). San Jose's Land Use Challenge Problem Statement.

² Ibid

To keep up with the pace of proposed development, infrastructure improvements are also required, by phase. A traffic impact fee (TIF) was adopted in 2011 to fund these improvements, following the dissolution of California's redevelopment agencies.

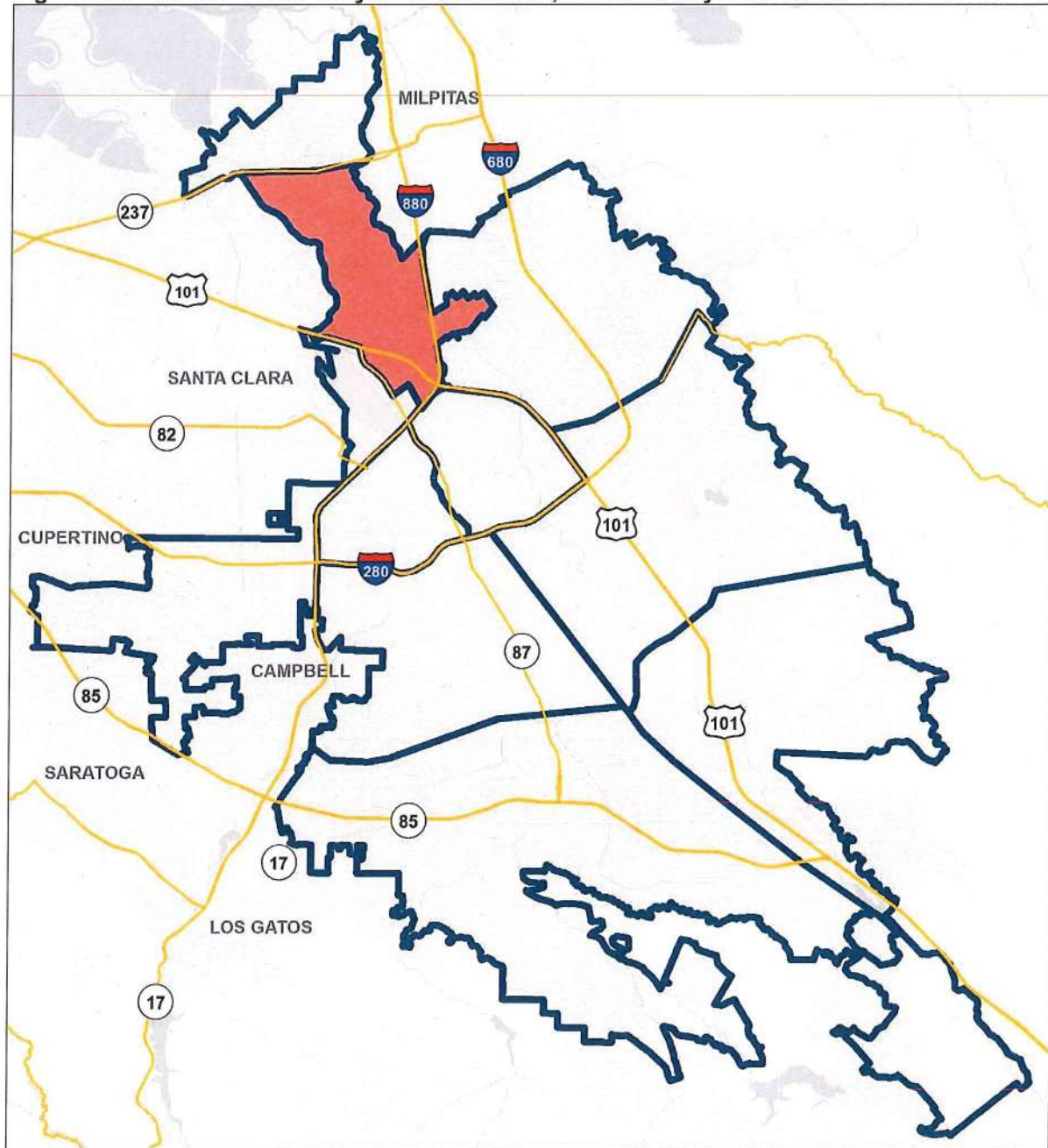
Today, North San Jose is still in Phase 1. While the number of residential units from Phase 1 have been fully met (8,000 housing units), only 15% of the commercial/industrial development Phase 1 goals has been reached³. Thus, per the policy, all further residential development is theoretically "blocked" until the other uses achieve their own phasing thresholds.

NORTH SAN JOSE SUBAREAS

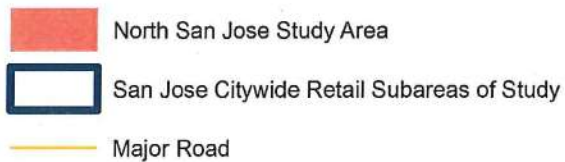
As described above, North San Jose is a non-homogeneous area, made up of very different types and concentrations of land use. The four subareas of analysis defined in Figure II-3 aim to incorporate these differences. These subareas are not of equal sizes based on acres or jobs/population, but rather they are defined based on existing land use patterns, development density, and physical barriers (e.g. highways). These subareas also approximately match the zones defined in the NSJADP – such as the Industrial Core Area located in Subarea Central, and the residential zones mostly located in Subarea North. Subarea East and Subarea South are somewhat unique entities, as they are both completely separated from Subarea Central by highways. Subarea South has developed accordingly to its proximity to the airport, and Subarea East is also closely related to the larger Berryessa area, which is undergoing a land use transition in part driven by the new Berryessa BART station, expected to open sometime in 2018.

³ The Rose Center for Public Leadership (2017). San Jose's Land Use Challenge Problem Statement.

Figure II-1. North San Jose Policy Area Boundaries, within the City of San Jose



North San Jose Study Area in Context of the City of San Jose

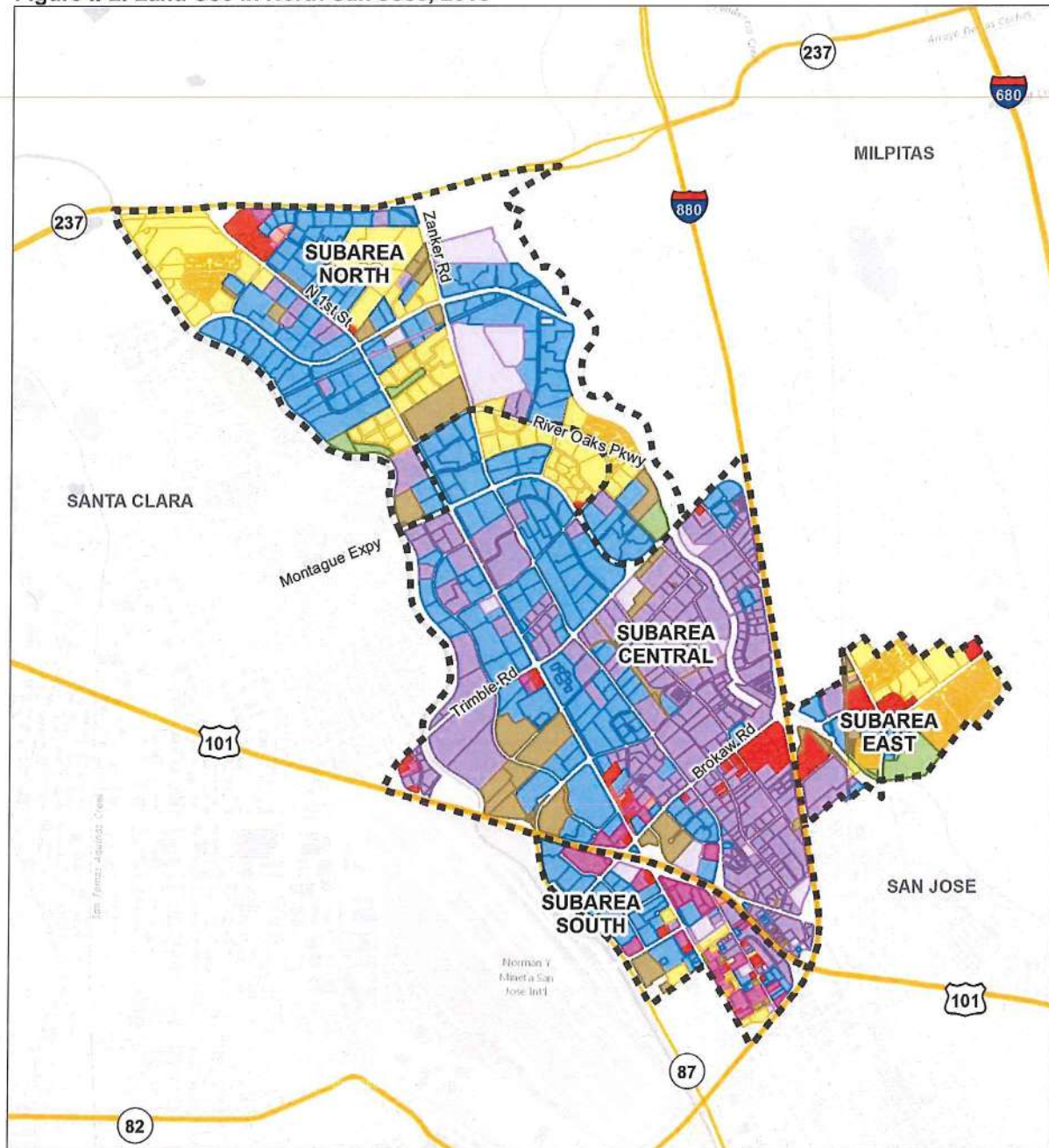


Sources: City of San Jose, 2016; Strategic Economics, 2017.

0 1.5 3 Miles



Figure II-2. Land Use in North San Jose, 2015



North San Jose Study Area: Land Use



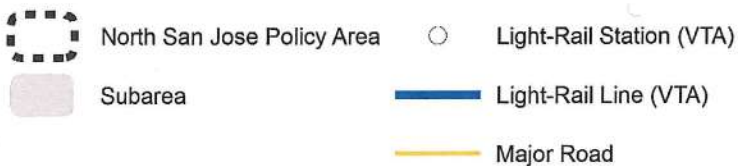
Sources: City of San Jose, 2016; Santa Clara VTA, 2016; Santa Clara County Assessor, 2016; Strategic Economics, 2017.



Figure II-3. Four North San Jose Study Subareas



North San Jose Study Area and Subareas



Sources: City of San Jose, 2016; Santa Clara VTA, 2016; Strategic Economics, 2017.



NATIONAL TRENDS IMPACTING NORTH SAN JOSE

NATIONAL RETAIL TRENDS

Demand for retail in North San Jose is affected by broader changes in the entire retail industry. As summarized in a recent market report, “the retail marketplace continues to undergo a period of retrenchment and reinvention”⁴. Major trends affecting demand for and supply of retail space are described below.

- **Demand for new retail space is shifting due to competition from online sales.** Much of the growth in retail demand is currently in categories like grocery stores, food and beverage, personal services, entertainment, and health/fitness because these establishments do not compete as much with online retailers.
- **New retail centers are being designed with a greater “experiential” component.** This includes well designed common areas and more experimental retail concept stores, as well as a much higher proportion of eating and drinking establishments than traditional malls. Conventional shopping centers are not being built like they were, and options are often more limited for retailers.
- **Nationally, luxury retailers and discount chains are driving new store expansions.** Luxury retailers are looking for space in upscale, landscaped, pedestrian-friendly shopping districts and renovated shopping malls (e.g., San Mateo’s Hillsdale Shopping Center and San Jose’s Westfield Valley Fair). Discount retailers, including low-cost apparel and dollar stores, are filling much of the big box space that became vacant during the recession.

NATIONAL TRENDS IN OFFICE SPACE

The preferences of the employees of suburban office parks are also changing, which impacts retail demand. Workers in these business parks are demonstrating a growing preference for walkability and fast-casual dining. This is pushing certain property owners to rethink their suburban office parks to emulate more urban, green, or walkable environments⁵.

In the case of North San Jose, the relative absence of easily accessible food and beverage options, pedestrian/bicycle path, and quick transit access, have also been mentioned as a barrier to attracting more businesses, as well as to attracting and retaining workforce for businesses already located in the area.

⁴ Cushman and Wakefield (2016, Q3). MarketBeat U.S. Shopping Center.

⁵ Newark Grubb Knight Frank (2015). Suburban Office Obsolescence: Quantifying Challenges and Opportunities. Accessed: <http://www.ngkf.com/Uploads/FileManager/NGKF-White-Paper-Suburban-Office-Obsolescence.pdf>

III. SOURCES OF RETAIL DEMAND IN NORTH SAN JOSE

This section provides an overview of key demand metrics that retailers typically consider in making their locational decisions. At the same time, these characteristics can provide guidance to the City as to where to prioritize place-making initiatives and new amenities to either amplify or strengthen any given existing or potential retail location within the area.

POPULATION AND EMPLOYMENT

Population, households, and day time population are three of the key variables retailers consider when evaluating a potential location.

- **North San Jose has a modest population, with nearly 10,000 households and 23,000 people.** This represents a significant change from a few decades ago: North San Jose's population more than doubled between 1990 and 2010⁶, and nearly three-quarters of the housing units present today have been built since 1990 (see Table III-1 and Figure III-1, 2, and 3).
- **North San Jose has a large employment base**, serving as home to 90,500 jobs. This area is one of the largest employment centers in the City of San Jose (see Table III-1). However, most of these workers commute into the area from surrounding communities. North San Jose workers are generally well-educated employees of high-tech manufacturing and/or software/information/technical professional service firms.
- **The jobs and housing units are not distributed evenly throughout North San Jose:**
 - Subarea North has the most households, the most high-density residential development, and the most high-density employment nodes in North San Jose (see Figure III-4).
 - Subarea North also experienced the strongest population growth: from 1990 to 2010, Subarea North's population grew threefold, from about 4,200 to 13,500 people.
 - This significant population growth in Subarea North is also exemplified by the construction of many new high-density residential developments in this area. Nearly half of the housing units in Subarea North were built since 2000.
 - Although Subarea Central also has jobs and housing, it holds less than 2,000 households, located mostly towards the north. Furthermore, the jobs are distributed at a lower density pattern and there are fewer high-density employment nodes than in Subarea North.
 - Subarea East is an older neighborhood built primarily between 1970 and 2000 and is functionally isolated from the rest of the North San Jose area.
 - Subarea South has seen some new high-density residential development since the 2000s, but this subarea tends to be functionally separated from North San Jose, and more strongly connected to the airport in its form of development (e.g. multiple large hotels).
- **North San Jose has only a modest share of residents who both work and live in the area.** Of all employed residents living in North San Jose, about 16% also work in the area.
 - In Subarea North, which has the largest population, only 7% of employed residents living in the area also work in the subarea⁷.

⁶ A ten-year comparison is not included due to changing census block group boundaries. Furthermore, the analysis of population growth over time is shown only for Subareas North, Central and South because the boundaries for Subarea East changed so drastically over the different time periods.

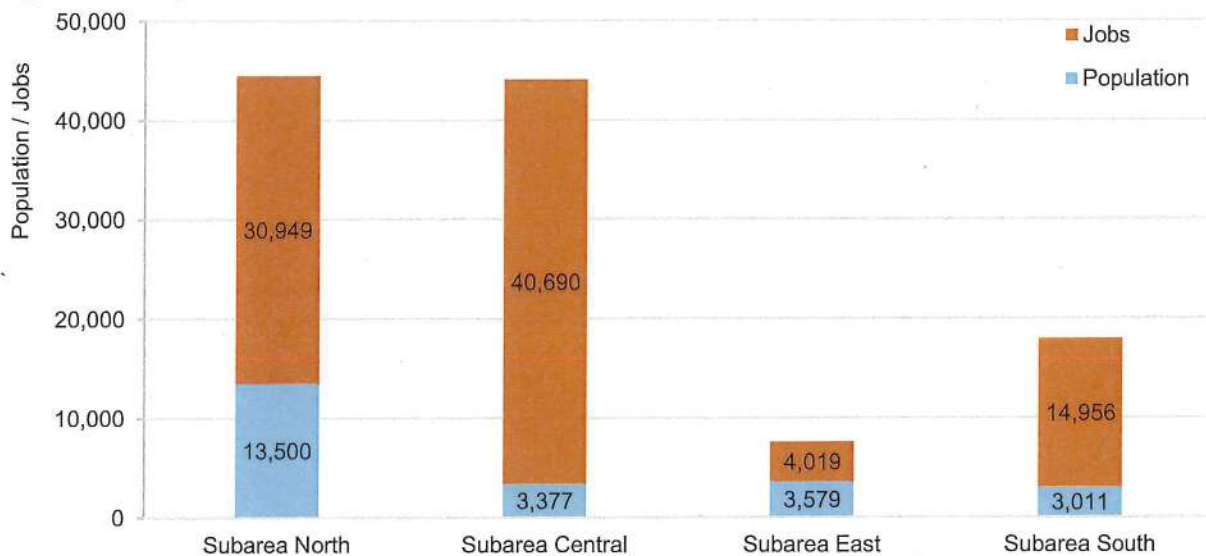
⁷ This data was obtained from the 2014 U.S. Census Longitudinal Employment Household Dynamics (LEHD).

Table III-1. Population, Households, and Employment in North San Jose Subareas, 2014

	2014 Households	2014 Population	2014 Jobs	2014 Population + Jobs
Total North San Jose	9,648	23,467	90,614	114,081
Subarea North	5,221	13,500	30,949	44,449
Subarea Central	1,753	3,377	40,690	44,067
Subarea East	1,209	3,579	4,019	7,598
Subarea South	1,465	3,011	14,956	17,967
City of San Jose	310,584	986,320	382,266	1,368,586
Santa Clara County	614,714	1,841,569	963,099	2,804,668

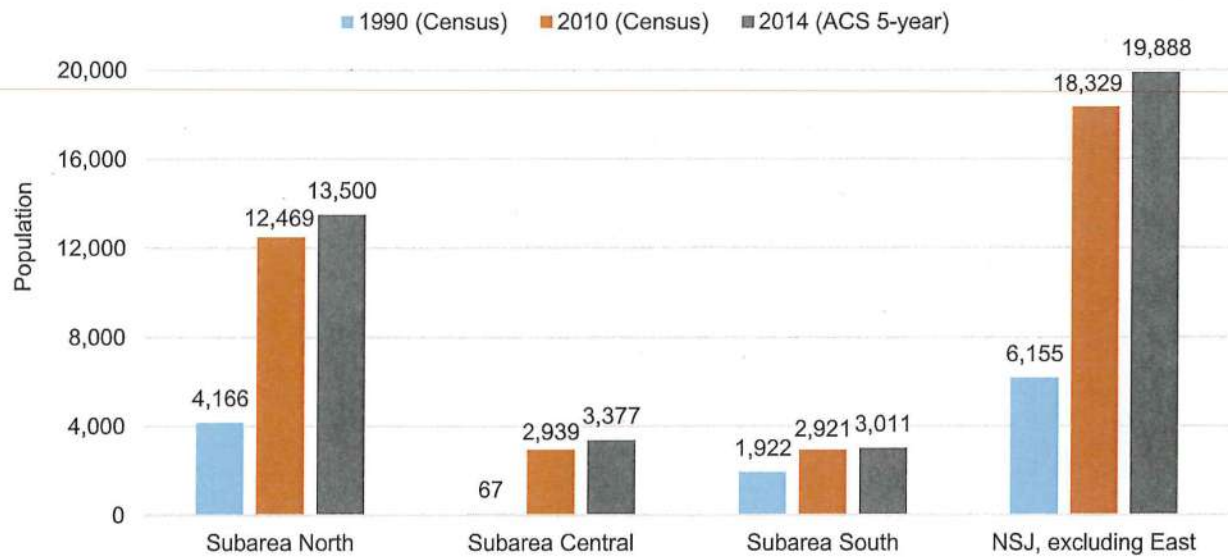
Source: ACS 5-year estimates 2010-2014; EDD 2014 City of San Jose; County Business Patterns, 2015; Strategic Economics, 2017.

Figure III-1. Population and Jobs in North San Jose Subareas, 2014



Source: ACS 5-year estimates 2010-2014; U.S. Census 1990, 2000; Strategic Economics, 2017.

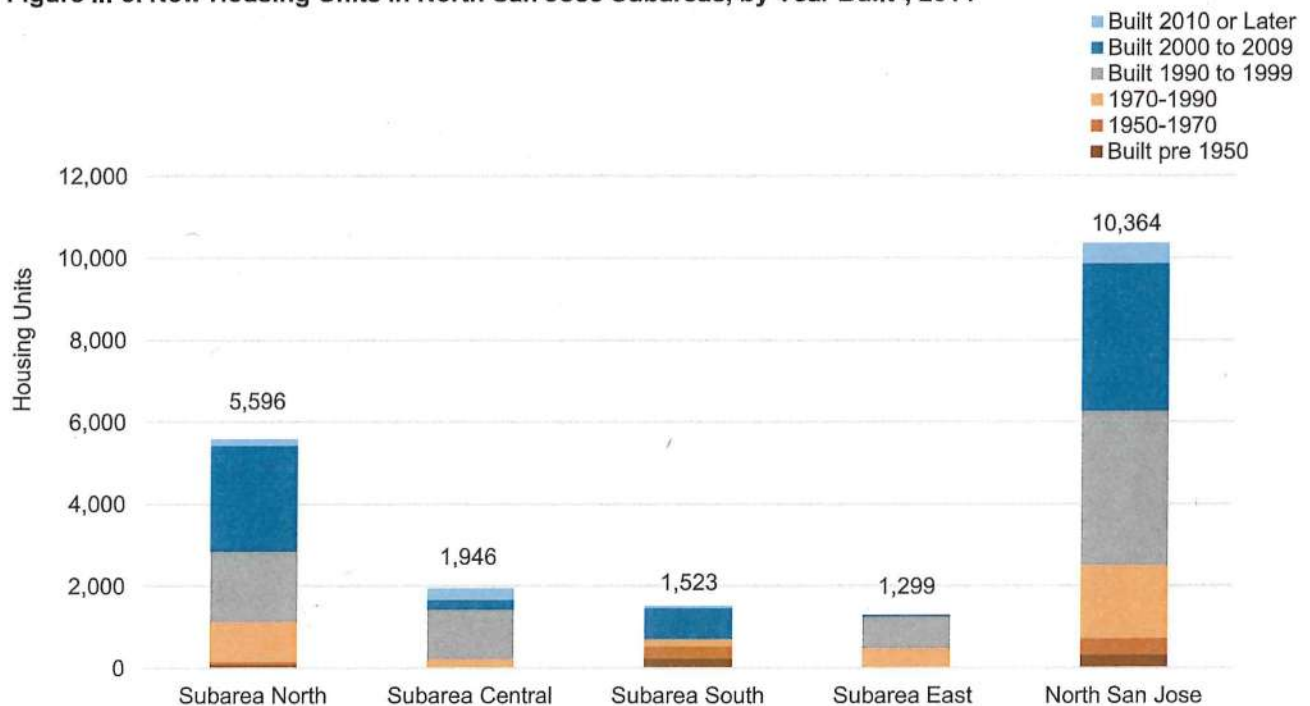
Figure III-2. Population Growth in North San Jose Subareas North, Central, and South*, 1990-2014



*A ten-year comparison is not included due to changing census block group boundaries. Furthermore, the analysis of population growth over time is shown only for Subareas North, Central and South because the boundaries for Subarea East changed so drastically over the different time periods.

Source: ACS 5-year estimates 2010-2014; U.S. Census 1990, 2000; Strategic Economics, 2017.

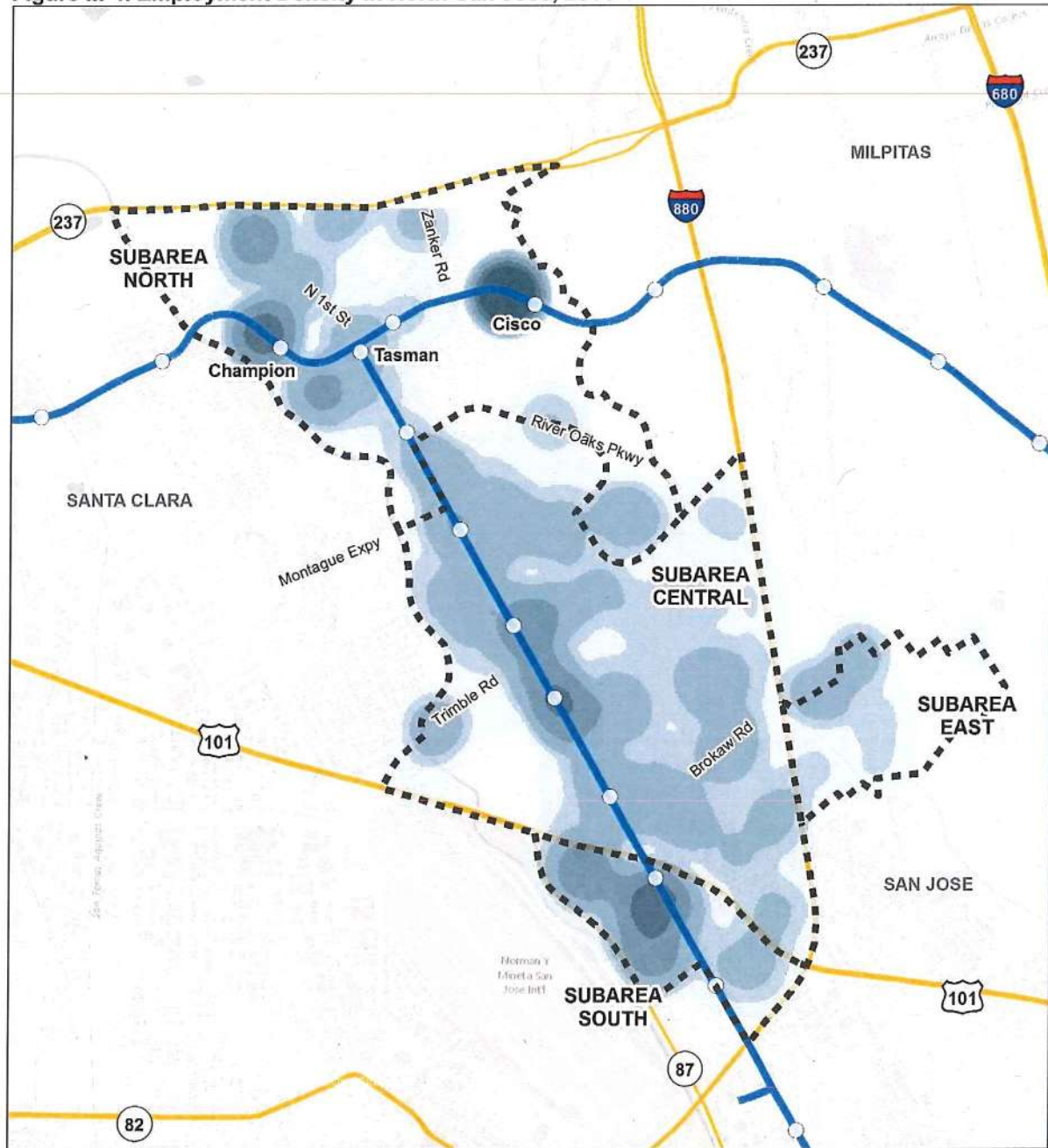
Figure III-3. New Housing Units in North San Jose Subareas, by Year Built*, 2014



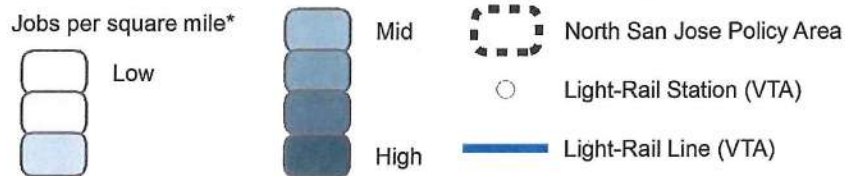
* The data shows the number of units built during the specified periods that were still in existence at the time of interview.

Source: ACS 5-year estimates 2010-2014; Strategic Economics, 2017.

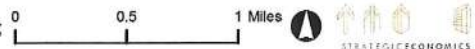
Figure III-4. Employment Density in North San Jose, 2014



North San Jose Study Area: Employment Density, 2014



*Kernel Density Search radius: 1/4 mile. EDD data was manually modified to account for (1) Cisco's buildings at Tasman Dr and Cisco Way, and (2) Samsung's increased employment at Tasman Dr and N1st. Source: City of San Jose, 2016; California EDD 2014; Strategic Economics, 2017.

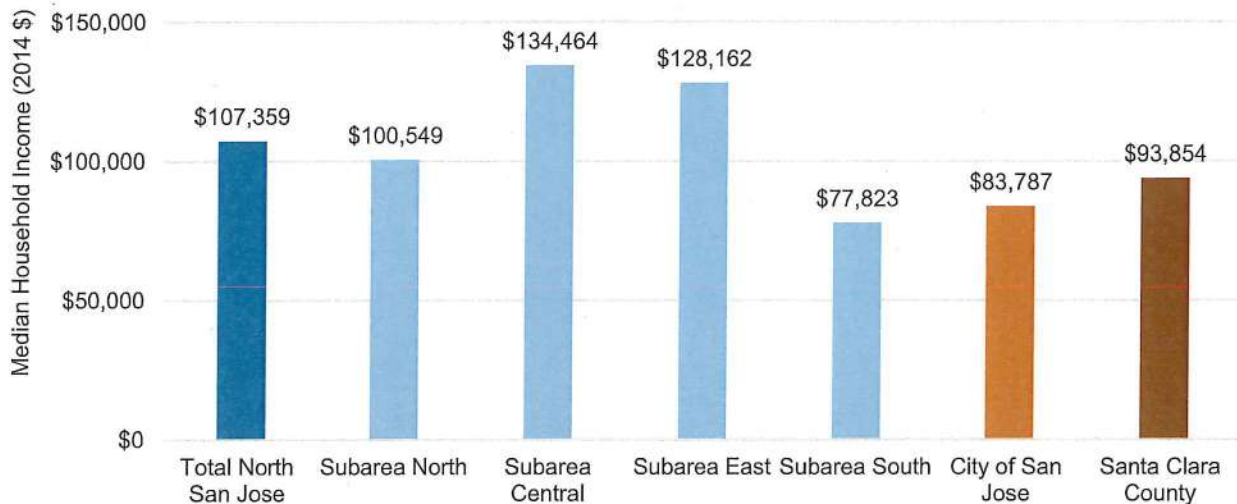


OTHER DEMOGRAPHIC DEMAND INDICATORS

In addition to overall numbers of people, households, and jobs, retailers consider other demographic characteristics – educational levels, household income, ownership status, and family type –when making location decisions. North San Jose has a distinctive demographic composition:

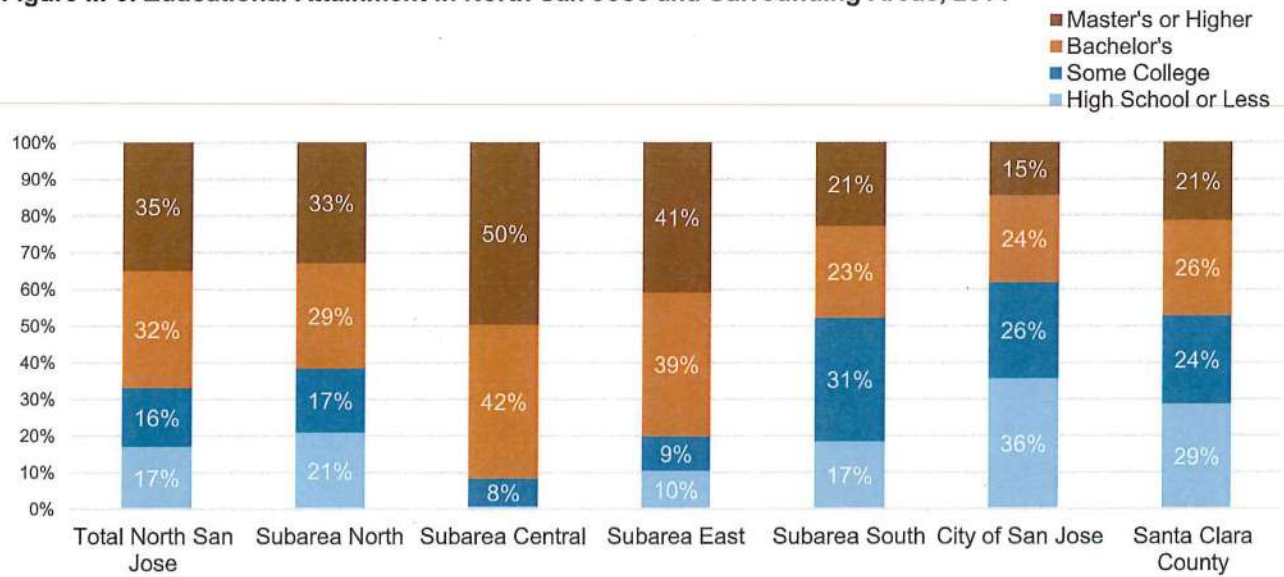
- **Residents in all subareas of North San Jose have high median incomes and high levels of educational attainment**, in most cases higher than the citywide and countywide averages (see Figures III-5, 6). In particular, Subareas North, Central, and East show particularly high household income levels reaching above \$100,000 and more than 60% of persons with a Bachelor's degree or higher. Still, there are also pockets of older housing in Subarea North and Subarea South may that represent more modest income households.
- **North San Jose has a relatively large renter population**: in North San Jose overall, 69% of occupied housing units are renter-occupied, which is considerably higher than the citywide and countywide share (both 43% renter-occupied). In particular, Subarea North and Central have high shares of renter populations, with 72% and 82% renter-occupied, respectively. Anecdotal information suggests that many of these units are rented by Silicon Valley companies to house employees who are working in Silicon Valley, although not necessarily San Jose, on a relatively short-term basis.
- **North San Jose has a large population of 18-36-year old's** (41%) – which is considerably higher than the City of San Jose overall and Santa Clara County overall (both have about 25%). Along the same lines, North San Jose also has a relatively high share of 1- and 2-person households (66%), comparatively to the City of San Jose (47%) or the County of Santa Clara (51%).
- **Nonetheless, a quarter of North San Jose's residents are families with children**, which accounts for about 2,600 households.

Figure III-5. Median Household Income in North San Jose and Surrounding Areas, 2014



Source: ACS 5-year estimates 2010-2014; Strategic Economics, 2017.

Figure III-6. Educational Attainment in North San Jose and Surrounding Areas, 2014



Source: ACS 5-year estimates 2010-2014; Strategic Economics, 2017.

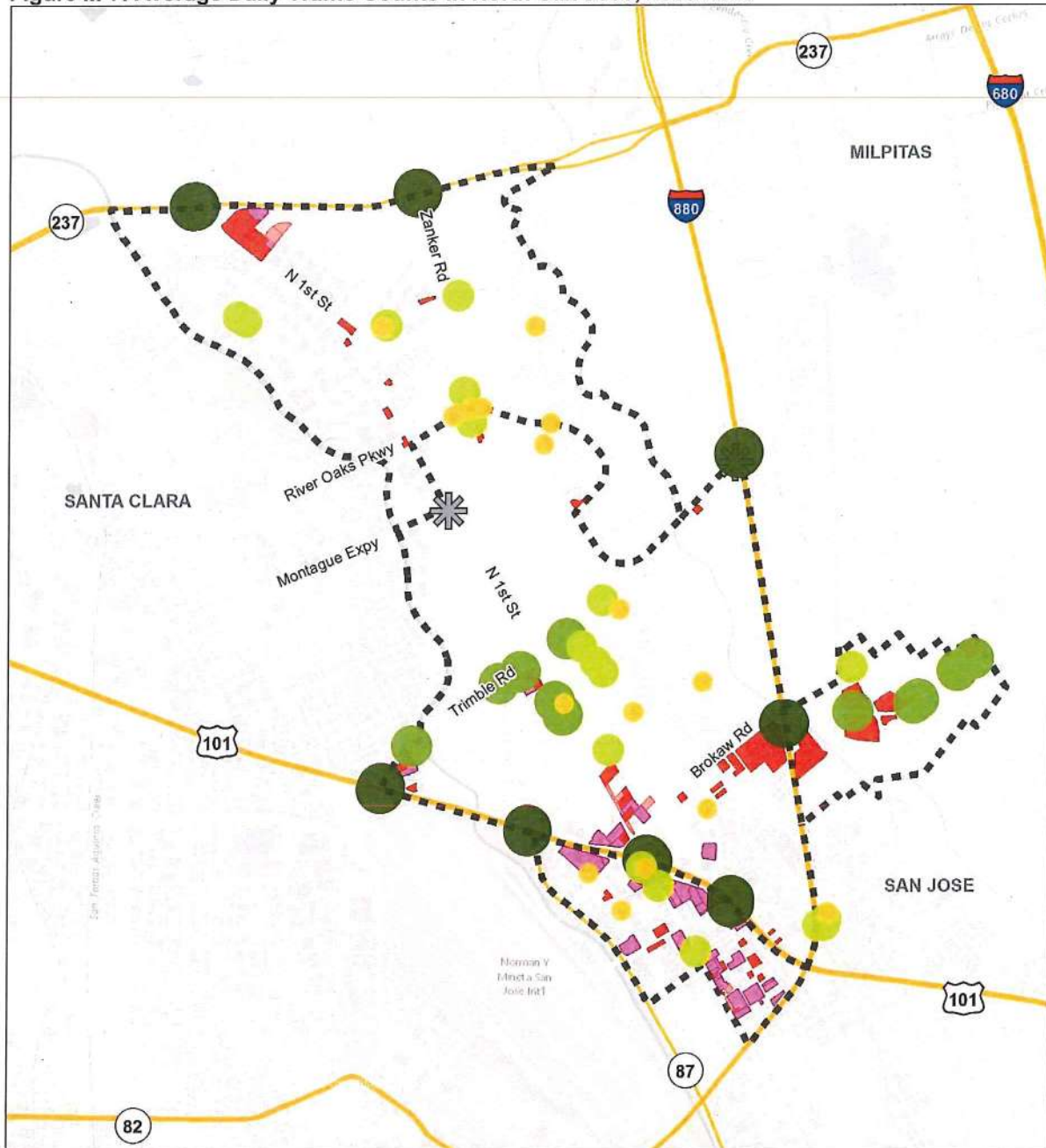
TRAFFIC VOLUMES

Traffic volume is another key demand metric: retailers are typically interested in locating near high-visibility corridors and/or at freeway interchanges. Intersections with through-traffic of at least 25,000 cars/day are usually the most appealing to large/regionally-serving retailers. Traffic counts obtained from the City of San Jose and Caltrans⁸ were used to classify North San Jose's intersections by traffic volume (see Figure III-7).

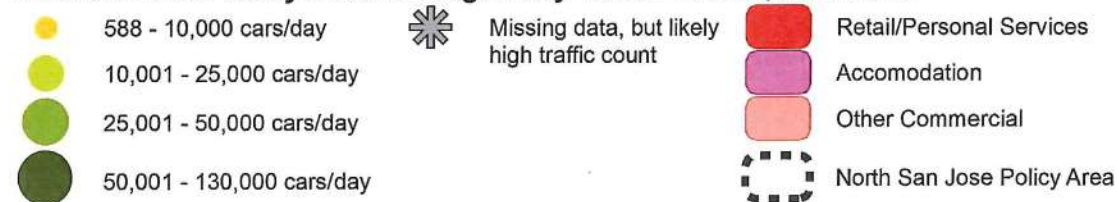
- Traffic volumes are highest at highway on- and off-ramps, such as the 237 ramps to N 1st and Zanker; the US 101 ramps to Subarea South and Central, and the I-880 ramps to Montague Express Way and Brokaw Rd.
- Other than highway ramp intersections, other key junctions carry relatively large flows of traffic within North San Jose and are in closer proximity to existing employment and residential concentrations. These junctions could be optimal for locating new retail. These include:
 - N 1st and Trimble Road
 - Intersections along Brokaw Road in Subarea East.
 - Zanker Road and Tasman Drive
 - Zanker Road and River Oaks Parkway
 - N 1st and Tasman Drive
- Trimble and Brokaw Roads provide fast direct connections between I-880 and I-101, accounting for very high traffic volumes. Montague Expressway also offers an east/west connection across North San Jose, but the connection is less direct than Trimble Road, and both utilize the same off-ramp from I-880. As will be shown later, existing retail development illustrates that these factors make Trimble Road a much more desirable retail location than Montague Expressway.

⁸Although traffic counts were not available for all intersections and were pulled from various points in time (2005 to 2016), these sources were the best data available to the research team. These counts provide a broad-picture sense for zones of higher car volumes and is useful for relative ranking of intersections. It is also acknowledged that this a car-oriented measure, which does not consider pedestrian or transit-user visibility and accessibility.

Figure III-7. Average Daily Traffic Counts in North San Jose, 2005-2015



North San Jose Study Area: Average Daily Traffic Counts, 2005-2015



Sources: City of San Jose, 2016; Santa Clara VTA, 2016; Santa Clara County Assessor, 2016; Strategic Economics, 2017.

0 0.5 1 Miles



IV. RETAIL SUPPLY IN NORTH SAN JOSE AND THE LARGER TRADE AREA

The discussion below provides an overview of the existing, planned, and proposed competitive retail supply in North San Jose, as well as key competitive retail developments in the immediate trade area that draws customers from North San Jose.

CURRENT RETAIL INVENTORY

North San Jose's current retail supply is illustrated in Figure IV-1 and summarized in Table IV-1. The following discussion describes the amount, location type, and quality of this retail inventory both for North San Jose overall and by subarea.

North San Jose Overall:

- **In aggregate, North San Jose has a significant retail supply relative to its total population.** Excluding mixed-use retail, North San Jose currently has 1.2 million sq. ft. of retail RBA (Rentable Building Area). This represents about 3.5% of the City of San Jose's total retail inventory; however as of 2014, North San Jose represented only 2.4 percent of the City's population. On a per capita basis, North San Jose has 52 sq. ft. of retail per resident, which is considerably higher than both the citywide and countywide square footage per capita. Day time employment does drive retail activity, but since people do significantly less shopping during the work day than they do on weekends and evenings, most retailers tend to focus on residential population and households.
- In terms of RBA, North San Jose's retail consists of 1/3rd General Retail, 1/3rd Community Center retail, and 1/3rd Neighborhood Center retail (see Figure IV-3). There are no Lifestyle, Power, Outlet Centers, or Regional/Super-regional malls in North San Jose. The full list of shopping centers and their year of construction is included in Table IV-2. Definitions for each retail category are provided in Appendix A.
- Larger shopping centers in North San Jose have located in close proximity to freeway off-ramps and high traffic volume streets, and to a lesser extent, residential and employment concentrations.
- **North San Jose is also surrounded by significant competitive supply in nearby cities.** To the West is the City of Santa Clara – a regionally significant employment and retail/entertainment hub – and to the East is the City of Milpitas – which has a large supply of retail centers. Most notably, the Great Mall (in Milpitas), 99 Ranch (in Milpitas) and City Place (proposed project in Santa Clara) are all located within a 2 to 3-mile radius from the center of Subarea North.
- Not accounted in these totals is the small amount of retail that has developed on the ground-floor of mixed-use housing developments. Several large (50 units or more) housing projects developed recently have incorporated ground floor retail. These are typically small food and beverage or personal services retail. However, they are often quite isolated and not walking-distance from each other. A few examples of such developments and their ground floor retail include:
 - Elan at River Oaks (1992) – Starbucks, Subway, bank
 - North Park Housing Development (2002) – food and beverage (Starbucks, Quiznos)
 - Crescent Village Apartments (2012) – food and beverage (Curry Up Now, Mod Pizza)
 - Riverview Apartments (2014) – Bamboo Garden, Pokeworks, Salad Farm
 - The Verdant (2014) – Faz Mediterranean Restaurant, Capriotti's Sandwich Shop, UPS store

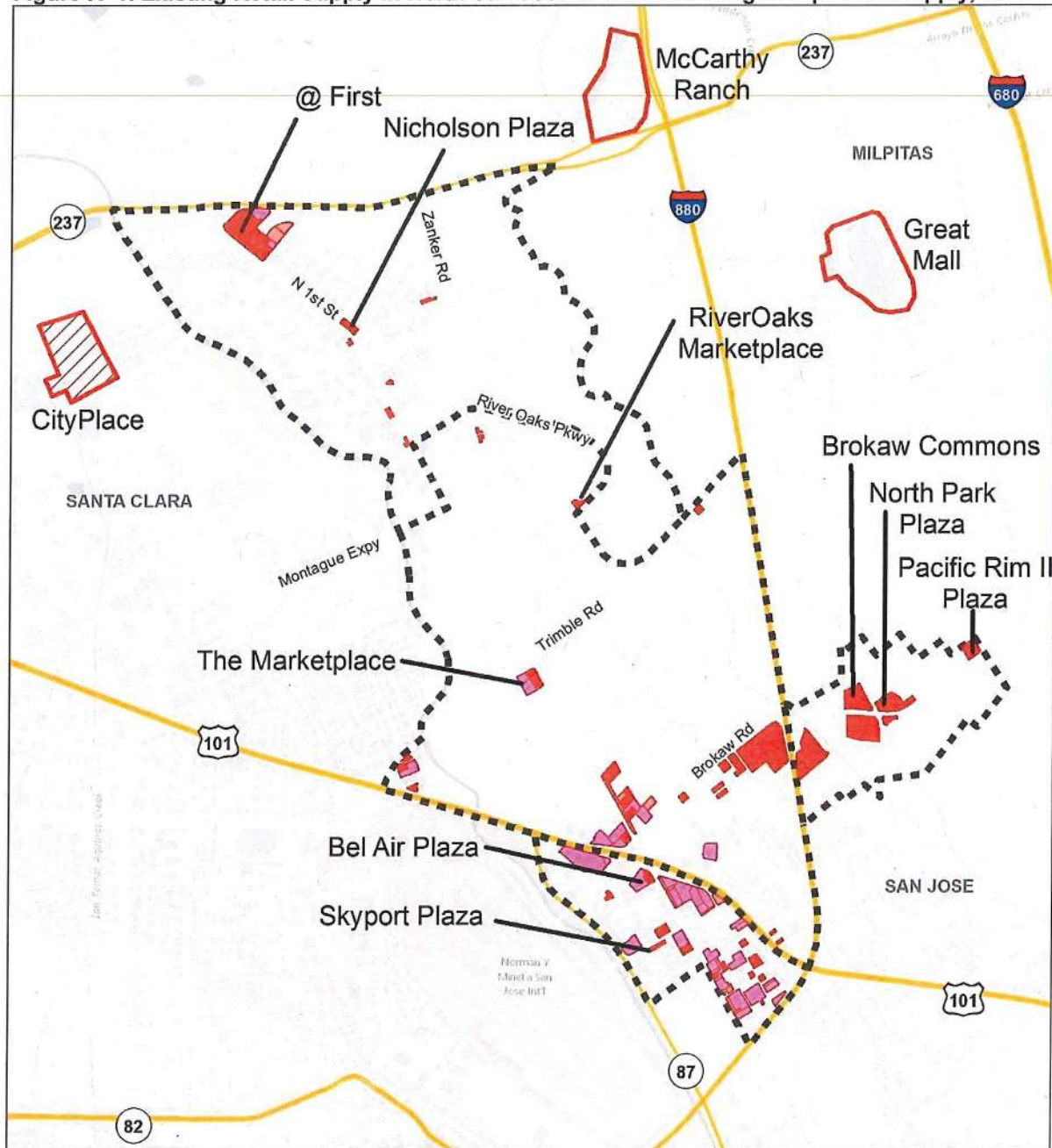
By Subarea:

- Even if North San Jose appears well-served by retail in aggregate, the distribution of retail across different subareas is uneven and is not well matched with the highest concentrations of households (see Figure IV-2). Subarea East has the highest retail RBA (~600,000 sq. ft.), followed by Subarea North (~250,000 sq. ft.), Central (~230,000 sq. ft.), and South (~160,000 sq. ft.).
- Subarea North shows the largest mismatch between its population share (58 percent of North San Jose's population) and its retail RBA share (20 percent of North San Jose's RBA). Subarea North also has the smallest RBA per capita, at about half the citywide and countywide value. It is, however, the subarea with the most mixed-use ground floor retail (described above). In turn, Subarea East has an extraordinarily high RBA, indicating that this retail serves a very large trade area, rather than the population within the Subarea itself. Finally, Subareas Central and South also have relatively high per capita RBA numbers reflecting the fact that these areas both have high traffic volume corridors and/or good locations at freeway interchanges, rather than having retail offerings that focus on a local population, as shown in Table IV-1.

By Year Built and Quality:

- Most of the in-center retail is located in Subarea North and East. Subarea East and North also have the newest retail stock and highest-rated retail quality (3- and 4-star; mainly Neighborhood and Community Center retail). Subarea South and Central, in turn, have older, lower-quality stock that consists mainly of scattered general retail, with the exceptions of a few small strip centers (see Figure IV-3).
- Nearly 80 percent of North San Jose's retail RBA was built since 1990, which matches the area's population growth over this time period (see Figure IV-4 and Table IV-2). Two new large centers - @First in Subarea North and Brokaw Commons in Subarea East - were built since 2010 and account for all of North San Jose's post-2010 RBA. This seems to confirm to some extent the hypothesis that (1) retail follows rooftops and (2) retail follows highway intersections.
- A large portion of the recently added retail supply is food and beverage-oriented. For instance, the @First Shopping Center has multiple fast-casual dining options and coffee shops with spacious outdoor seating options. Brokaw Commons has also opened similar establishments. Most of the ground-floor retail coming up also consists of food and beverage shops, as mentioned above.

Figure IV-1. Existing Retail Supply in North San Jose and Surrounding Competitive Supply, 2016



North San Jose Study Area: Existing Supply and Surrounding Competitive Supply

- | | | | |
|--|----------------------------|--|-------------------------------------------------------|
| | North San Jose Policy Area | | Proposed Retail/Personal Services (CityPlace) |
| | Retail/Personal Services | | Existing Regional Competitive Supply outside San Jose |
| | Accommodation | | |
| | Other Commercial | | |

Sources: City of San Jose, 2016; Santa Clara VTA, 2016; Santa Clara County Assessor, 2016; Strategic Economics, 2017.



Table IV-1. Retail Rentable Building Area (RBA) in North San Jose, by Subarea, 2016

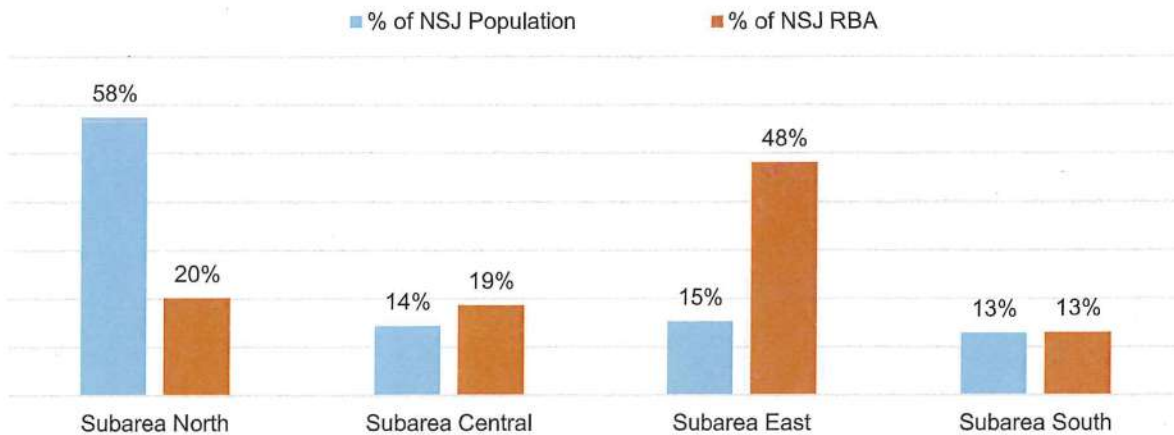
	Population 2014*	% of NSJ Population	% of San Jose Population	Rentable Building Area (RBA) (sq. ft.)	% of NSJ RBA	% of San Jose RBA	RBA per capita*	RBA per sq mi
Total North San Jose	23,467	100%	2.4%	1,224,547	100%	3.5%	52	163,273
Subarea North	13,500	58%	1.4%	246,933	20%	0.7%	18	95,710
Subarea Central	3,377	14%	0.3%	228,544	19%	0.6%	68	62,615
Subarea East	3,579	15%	0.4%	589,368	48%	1.7%	165	983,920
Subarea South	3,011	13%	0.3%	159,702	13%	0.5%	53	263,970
City of San Jose	986,320	/	100%	35,191,096	/	100%	36	194,857
Santa Clara County**	1,841,569	/	/	72,372,109	/	/	39	55,500

*The block groups and the subarea boundaries do not line up perfectly - but in fact, this helps prove the point being made here, since the Subarea East block groups are already smaller than the subarea boundaries, and the North Subarea block groups are larger than the subarea boundaries

**Santa Clara's RBA was pulled from CoStar, 2015.

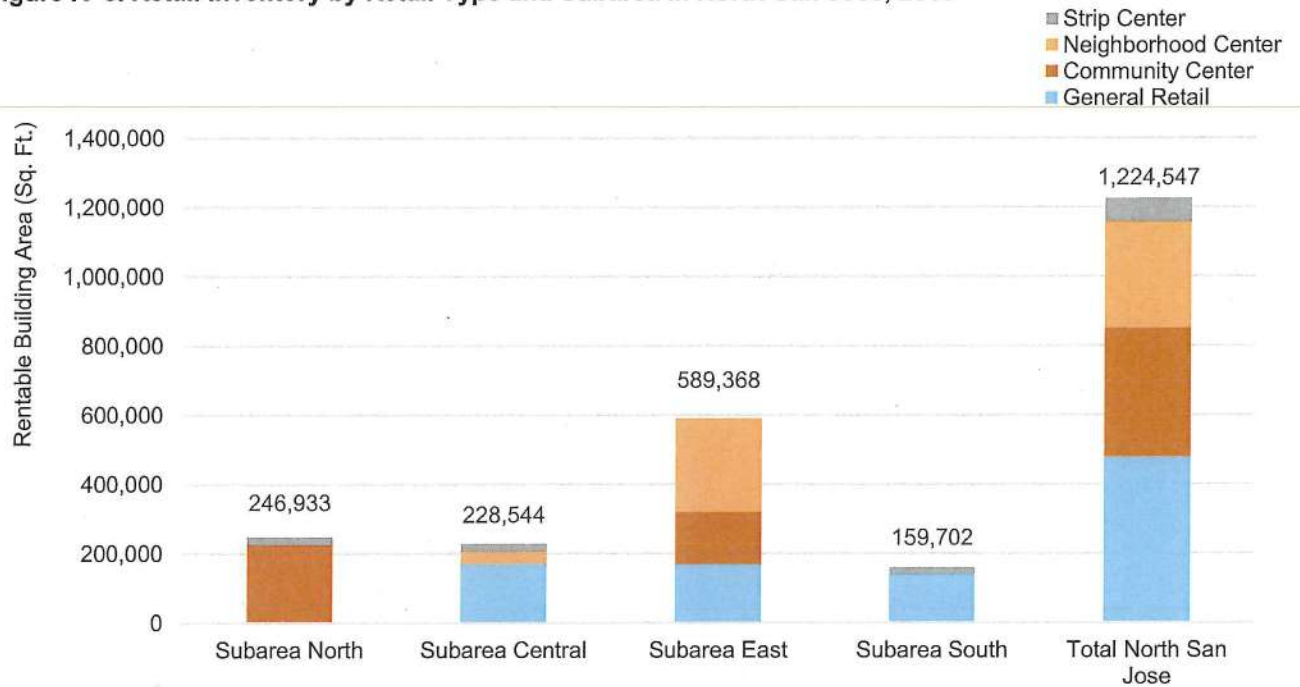
Source: CoStar, 2016; Strategic Economics, 2017.

Figure IV-2. Population and Rentable Building Area (RBA) in North San Jose Subareas as a Share of North San Jose Totals, 2014 and 2016



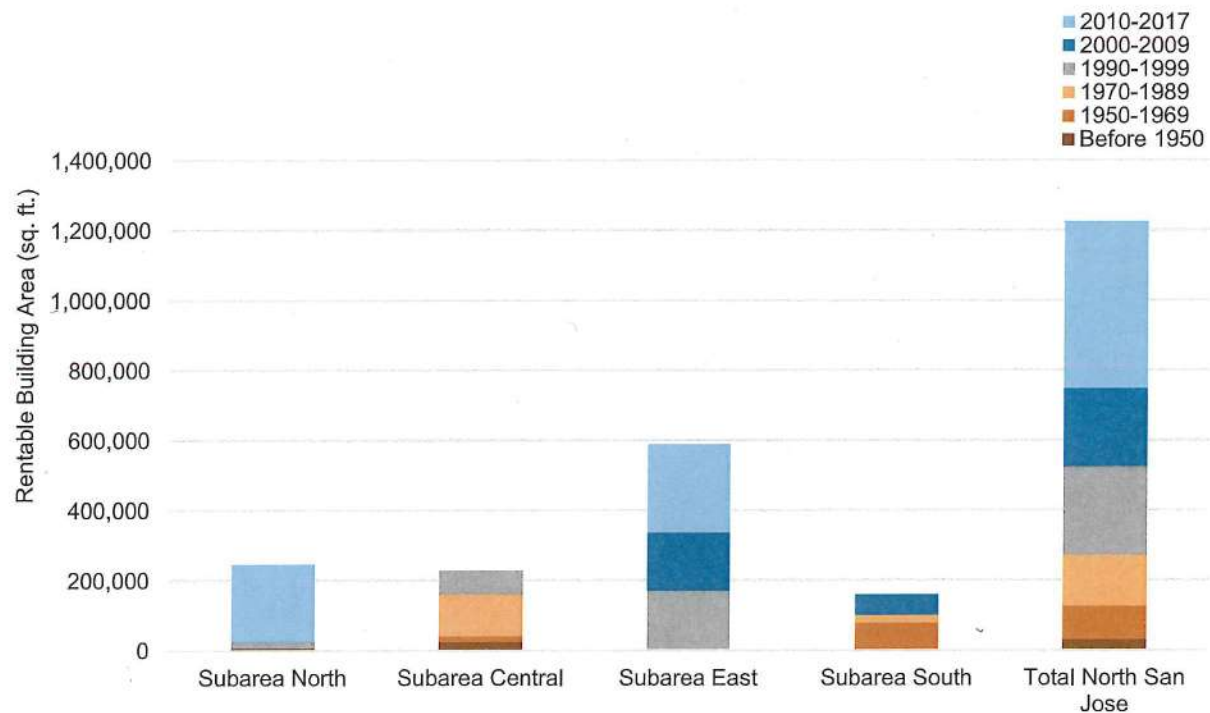
Source: CoStar, 2016; Strategic Economics, 2017.

Figure IV-3. Retail Inventory by Retail Type and Subarea in North San Jose, 2016



Source: CoStar, 2016; Strategic Economics, 2017.

Figure IV-4. Retail Inventory by Year Built and Subareas in North San Jose, 2016



Source: CoStar, 2016; Strategic Economics, 2017.

Table IV-2. Shopping Centers by Subarea and by Year Built in the North San Jose Study Area, 2016

Name	Center Type	Address	Year Built	Rentable Building Area (Sq. Ft.)	% of Total NSJ
Subarea North					
@ First Retail Center	Community Center	4100-4200 N First Ave	2010	223,562	30%
Nicholson Plaza	Strip Center	3720-3730 N 1st St	1984	23,371	3%
Subtotal				246,933	33%
Subarea Central					
The Marketplace	Strip Center	2551-2595 N 1st St	1992	23,638	3%
River Oaks Market Place	Neighborhood Center	670-690 River Oaks Pky	1991	35,747	5%
Subtotal				59,385	8%
Subarea South					
Bel Air Plaza	Strip Center	1749 N 1st St	2007	11,217	2%
1757-1759 Technology Dr	Strip Center	1757-1759 Technology Dr	1982	10,066	1%
Subtotal				21,283	3%
Subarea East					
Sprouts @ Brokaw	Community Center	1080 E Brokaw Rd	2017	150,000	20%
Brokaw Commons	Neighborhood Center	Brokaw Rd @ Old Oakland	2012	102,216	14%
North Park Plaza	Neighborhood Center	1708-1712 Oakland Rd	1997	76,703	10%
Pacific Rim Plaza II	Neighborhood Center	1633-1715 Lundy Ave	1994	84,584	11%
Subtotal				413,503	56%
North San Jose Total in Centers				741,104	100%
San Jose Citywide Total in Centers				21,469,988	
North San Jose as Share of San Jose Citywide Shopping Center					3%

Source: CoStar, 2016; Strategic Economics, 2017.

RETAIL REAL ESTATE PERFORMANCE

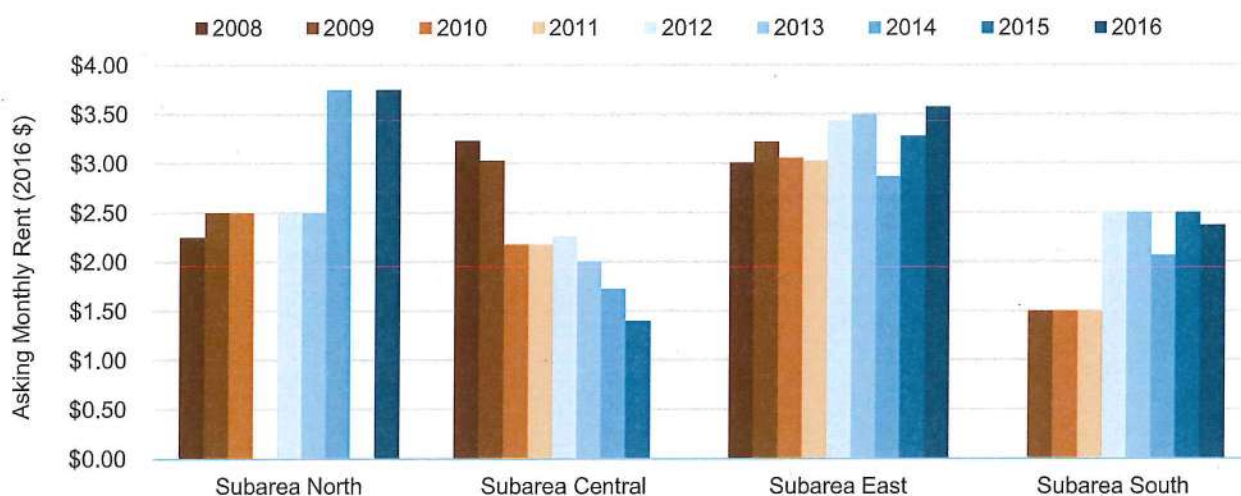
Beyond aggregate supply, further indicators of retail performance include rents and vacancy rates for the existing supply, and whether or not the market is seeing new space being added.

- **Average rents for retail space are the highest in Subarea East and Subarea North**, around \$3.50-\$3.75/square foot/month (see Figure IV-5). They are the lowest in Subarea Central (\$1.40/sq. ft. in 2015 in Subarea Central) and are modest in Subarea South (\$2.40/sq. ft.). The average asking rents for the North San Jose/Milpitas market overall are around \$2.50/sq. ft.⁹

⁹ Cushman and Wakefield (2016, Q3). MarketBeat Retail Snapshot for the San Jose Metro Retail.

- Since 2006, average retail rents have increased the most in Subarea East and Subarea North (see Figure IV-5). This is likely explained by the addition of high-quality large community centers in these subareas (@First and Brokaw Commons in 2010 and 2012, respectively).
- Overall, the vacancy rate in the North San Jose/Milpitas submarket is currently at around 7.5%¹⁰. However, within North San Jose, vacancy rates vary by subarea, providing a potential indication for each subareas' market health (see Table IV-3):
 - In the last quarter of 2016, Subarea North had a 6.2% vacancy rate. While this is a significant increase over the previous three years in which the vacancy rate was consistency below 2.2%, this can be largely explained by the Fresh & Easy grocery store closing in mid-2016 when the entire chain went out of business. Informal information suggests that the Fresh & Easy space will be released soon, at which point the Subarea North vacancy rates will drop again.
 - In the last quarter of 2016, Subarea East had the lowest vacancy rate (1.1%), and has shown rates below 3% since 2013.
 - Subarea Central has shown low vacancy rates since 2015 – but previously, vacancy was 10% or higher.
 - Subarea South has shown vacancy rates ranging between 5 and 12% since 2012.

Figure IV-5. Monthly Average Asking Retail Rent (NNN) in North San Jose Subareas, 2008-2016



Source: CoStar, 2017; Strategic Economics, 2017.

Table IV-3. Vacancy Rates (Percentage) in North San Jose Subareas, 2009-2016

	2009	2010	2011	2012	2013	2014	2015	2016
Subarea North	6.4	0	6.4	4.4	0.7	0	0.7	6.2
Subarea Central	15.9	13.9	13.7	14.5	11.9	10.4	1.2	1.2
Subarea East	10.6	10.5	7.4	7.7	2.9	0.5	2.2	1.1
Subarea South	1.7	1.4	2.2	5.6	7.1	6.3	12.5	9.2

Vacancy rates shown are taken from the fourth quarter (Q4) of each year.

Source: CoStar, 2017; Strategic Economics, 2017.

¹⁰ Cushman and Wakefield (2016, Q3). MarketBeat Retail Snapshot for the San Jose Metro Retail.

PLANNED AND PROPOSED RETAIL PROJECTS AND POTENTIAL OPPORTUNITY SITES FOR FUTURE RETAIL DEVELOPMENT

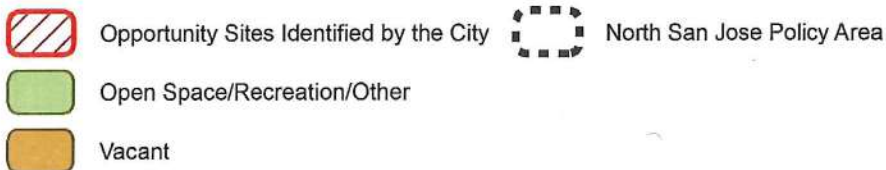
Beyond the current retail inventory and market conditions in North San Jose, potential new retail opportunities must also be accounted for. Various ideas and sites have been suggested in North San Jose. Making the most of opportunities in which property owners or developers already demonstrate an interest for new or creative retail will be essential for North San Jose's strategy moving forward. The list below summarizes planned and proposed retail projects, as well future opportunity sites for retail in North San Jose. These opportunity sites have been identified based on locational attributes, including traffic counts and land availability. A map of these sites is shown in Figure IV-6.

- **VTA Cerrone Yard (87 acres):** This site, owned by the Valley Transportation Authority (VTA), has put out a Request for Quotations for 1.8 million sq. ft. of office and commercial development. This site is strategically located in Subarea North, near Highway 237 and other dense residential projects.
- **Agnews site (81 acres):** This site is in planning process for a high school, K-8 school, and a 21-acre public park. This would provide much-needed community amenities to Subarea North, which has grown significantly in population in the last two decades.
- **Moitozo site (35 acres):** The Irvine Company has expressed interest in developing this site and has proposed multiple concepts of mixed use development (which would likely include a small retail portion). This site is centrally located and has potential to create one or multiple nodes of interest for Subarea North. It could build out key points of interest at its intersection, e.g. Zanker/River Oaks Parkway or N 1st/River Oaks Parkway.
- **Peery Arrillaga site (4.1 acres):** This site has been under discussion for hotel development, but it would likely also include retail and amenities, given its proximity to the light-rail line, the new Samsung building, and the surrounding residential development.
- **Philips Lumileds site (69 acres):** The developer is interested in retail development on the Eastern corner of this large parcel (4 acres). The developer is also open to creative placemaking and more experiential retail strategies (e.g. shipping container-style park). Although this parcel is quite removed from the denser residential development of Subarea North, it is well located in proximity to Highway 101 and to the Guadalupe River.
- **Sakaue site (22 acres):** Retail (11 acres) and residential (11 acres) development is being proposed on this site. Although not in the heart of the residential parts of North San Jose, this parcel is close to the Coyote Creek, the I-880 and to residential nodes along River Oaks Parkway.
- **Hyundai site (11 acres):** This vacant parcel is under consideration for office/hotel development, but the broker is open to a variety of suggestions.

Figure IV-6. Potential Opportunity Sites for Future Retail Supply in North San Jose



North San Jose Study Area: Potential Opportunity Sites for Future Retail Supply



Sources: City of San Jose, 2016; Strategic Economics, 2017.



V. FINDINGS AND RECOMMENDED STRATEGIES

SUMMARY MARKET FINDINGS AND IMPLICATIONS

Based on the combination of demand factors and supply characteristics, the findings below summarize the conditions of North San Jose's existing retail market and suggest where there are unmet gaps that could be filled with future supply.

EXISTING MARKET CONDITIONS

- North San Jose does have a considerable supply of retail space. However, due to its auto-orientation, this existing inventory does not feel like a neighborhood "amenity", nor does it add anything towards creating a unique identity for the North San Jose area. The few places with ground floor retail in mixed use buildings similarly lack character and sufficient critical mass.
- Although North San Jose has a large employment base, day-time workers alone are a relatively weak source of demand for retailers.
- While households in North San Jose have high median incomes, there are not enough total households to attract most retailers.
- Considering the dense day-time workers within proximity to dense residential projects, Subarea North stands out as having the highest capacity to support new retail and/or new community amenities.
- Given traffic counts and other access issues, sites not located at freeway access points are not well-suited for major regional-serving retail development.
- North San Jose is surrounded by large existing and proposed retail centers, in Santa Clara and Milpitas.
- Lack of accessibility is a real barrier – lack of efficient public transit options, a daunting street grid (long, fortress-like blocks), segregation of uses, lack of connection between nodes, an abundance of parking lots, are a few examples. It will not be possible to instantly create a pedestrian-oriented, dense, mixed-use commercial corridor.
- As North San Jose evolves, the area will continue to attract some new retail activity, but this will most likely be in small increments. The primary uses will continue to be food and beverage-oriented.
- Adding new households to the area will increase the viability of future retail activity, but these households should be concentrated in relative proximity to existing residential development, rather than dispersed.
- Other types of amenities can be added to the area that will both support future retail activity and contribute to the overall quality of the area for both residents and workers. These include better bike and pedestrian facilities, small open areas where people can eat, work, and hang out, and other kinds of civic or community spaces, such as a library.

MARKET IMPLICATIONS FOR THE NORTH SAN JOSE RETAIL STRATEGY

- Given the overarching market trends and conditions both nationally and locally, future retail activity in North San Jose will probably not include any kind of lifestyle center, especially not in the Subarea North due to proximity to nearby centers (even though this is where there would be the best synergy of both residential and dense employment concentrations).
- Future retail development in North San Jose will occur at specific nodes that have available space, strong traffic volumes, and are in relatively close proximity to as many housing units as possible and/or most dense employment concentrations within the area. These retail nodes may be relatively small and could include a variety of building solutions ranging from old shipping containers to single story retail buildings, to shop space on the ground floor of mixed use buildings. Whatever the building solution,

these structures should be fixed, rather than mobile, so that people know when and where to expect to have access to these facilities.

- Therefore, transforming North San Jose into a more distinct and attractive work place district will require using multiple approaches to create a unique identity for the area, including taking better advantage of its unique physical features, primarily its connection to the Guadalupe River and Coyote Creek.
- Another key asset that could help refocus North San Jose's image is the school complex planned for the former Agnews Hospital site. This complex would include a both a k-8 school and a new high school. Having both "neighborhood schools" and access to regional open space could make North San Jose a very attractive location not just for young workers, but for young families who want to live in Silicon Valley, but are currently priced out existing nearby neighborhoods with good schools and easy access to the regional employment base.
- Because the policy aspirations for adding significant new increments of retail development as expressed in both the General Plan and NSJADP are mismatched with market realities, both documents will likely need to be amended to reflect these new realities. The NSJADP in particular will have to be amended to reflect a more nuanced approach to identifying retail locations and to potentially scale back the amount of expected future retail development. In addition, the development phasing may need adjustment to allow for more residential development in the earlier timeframe. Other changes to both policy documents will also be necessary – these suggestions pertain only to retail development.
- The NSJADP also addresses regional transportation measures required to facilitate better access to North San Jose, but the Plan does not address the need for better internal circulation, especially for non-auto trips. However, because the area is flat and could easily be connected to both the River and the Creek, first class pedestrian and bicycle facilities could become "anchor" amenities for the entire district.
- Additional amenities that could help attract young families to North San Jose could include a library, health clinic or medical offices, and small-scale playground facilities appropriate for young children.
- Adding in such public facilities – including multi-modal street improvements, parks, playgrounds, and a library – will require creative funding and financing strategies that should be a shared responsibility between private property owners and the City.
- While the General Plan and NSJADP are both focused on future development, improvements to North San Jose should focus initially on transforming the area for current residents and employees.

RECOMMENDED NORTH SAN JOSE RETAIL STRATEGIES

The strategies recommended below are structured to respond to several imperatives including: ensuring that San Jose's premier employment district remains a vibrant and attractive location for businesses and their employees; offering market driven solutions that reflect current realities; and, offering solutions for North San Jose's changing identity to appeal to both existing and future businesses, workers, and residents. These strategies have been identified according to three time phases so that the City can begin to make immediate changes while also focusing on actions that will require a longer time horizon.

SHORT-TERM STRATEGIES (1-2 YEARS)

Strategy 1: Prepare a Multi-Modal Access Plan Connecting Existing Retail Nodes and Other Amenities in Subarea North

This plan should connect the existing retail and residential nodes within a loop that roughly includes N 1st Street, Tasman Road, Zanker Road, River Oaks Parkway, and if possible, connection points to Coyote Creek and the Guadalupe River, although these connections could come later.

Strategy 2: Encourage Small Retail Projects at Key Locations

Key locations, which all currently have high traffic counts and available development sites, include, but are not limited to:

- N 1st Street and West Tasman Drive
- N 1st Street and Montague Expressway
- N 1st Street and Trimble Road
- Zanker Road and West Tasman Drive

Strategy 3: Study the Potential to Implement a Robust Bike Share Program

Although people may drive or take the light rail to work, the fastest way to make trips around North San Jose, especially to access stores and restaurants, may be by bike. Making bikes available through a bike share program could provide this as an option and would work in conjunction with the new multi-modal street connections.

Strategy 4: Work with Existing Businesses and Major Property Owners to Identify Appropriate Funding and Financing Mechanisms to Support Improvements to North San Jose's Physical Conditions

Because any investment in street improvements or the addition of other public amenities in North San Jose will likely involve contributions from existing businesses and property owners, these key actors should be engaged in a discussion as to what mechanisms could be deployed and what steps will need to be taken to put these mechanisms in place. Likely mechanisms could include a property-based business improvement district (PBID) or other assessment mechanisms.

Strategy 5: Amend Regulatory Policies to State That All Future Retail Projects Include High Quality Bicycle and Pedestrian Access in Addition to Vehicular Access

As part of the shift to make North San Jose a more multi-modal place, current development regulations should be amended to ensure that as new development projects go forward, their design reinforces this goal.

Strategy 6: Undertake Appropriate Revisions to the NSJADP and the General Plan Related to Land Use Policies and Development Phasing

Although this process may not be completed within the short-term time frame, City staff and elected policy makers should begin to identify the full range of necessary changes in both policy documents within the next year. An important consideration will be the ability to increase the number of housing units in Subarea North to build on the existing cluster of housing units in this area and to take advantage of the proximity to the planned schools.

MID-TERM STRATEGIES (3-4 YEARS)**Strategy 7: Work with VTA to Improve Light Rail Service to North San Jose**

Transit is an important component of a multimodal strategy for North San Jose. And, while the district is currently served by several light rail lines, service is slow and too infrequent to provide a superior option to driving from this area to other important destinations, such as Downtown San Jose. The City of San Jose should work with VTA to address these service issues on an ongoing basis.

Strategy 8: Continue to Expand the Multi-modal Street Network to Include Emerging Retail Nodes in Subarea Central

Unlike Subarea North where there are already multiple retail nodes that could be connected with a multi-modal loops system, emerging retail nodes in Subarea Central may be too spread out to make such a loop feasible or desirable. However, each emerging node should have strong multi-modal connections to its immediate trade area, including a ½ mile radius or ten-minute walk, so that people can easily get to these nodes without having to either get in a car, or cross inhospitable intersections.

Strategy 9: Encourage the Development of Retail Pods in Underutilized Parking Lots

Individual property owners should be encouraged to add small-scale retail clusters, in the 10,000-12,000-square foot range, to existing underutilized parking lots. This strategy may be especially effective in locations that have no retail amenities and where there are no sites available to otherwise build a retail project.

LONG-TERM STRATEGIES (5-6 YEARS)**Strategy 10: Construct Facilities Geared Towards Young Children**

This would include adding such facilities as a branch library, small scale play grounds, and preschools or day care centers. Any of these facilities could be provided in future development projects and/or could be provided through the same mechanism that would pay for the multi-modal street enhancements.

VI. APPENDIX A

Below are retail and shopping center type definitions, as provided by CoStar (2017) in their online glossary of terms¹¹.

Regional Mall

Provides shopping goods, general merchandise, apparel, and furniture, and home furnishings in full depth and variety. It is built around the full-line department store with a minimum GLA of 100,000 square feet, as the major drawing power. For even greater comparative shopping, two, three, or more department stores may be included. In theory, a regional center has a GLA of 400,000 square feet, and may range from 300,000 to more than 1,000,000 square feet. Regional centers in excess of 750,000 square feet GLA with three or more department stores are considered Super Regional.

Super Regional Mall

Similar to a regional mall, but because of its larger size, a super-regional mall has more anchors, a deeper selection of merchandise, and draws from a larger population base. As with regional malls, the typical configuration is as an enclosed mall, frequently with multiple levels.

Community Center

Typically offers a wider range of apparel and other soft goods than neighborhood centers. Among the more common anchors are supermarkets, super drugstores, and discount department stores. Community center tenants sometimes contain value-oriented big-box category dominant retailers selling such items as apparel, home improvement/furnishings, toys, electronics or sporting goods. The center is usually configured in a straight line as a strip, or may be laid out in an L or U shape, depending on the site and design. Of all the center types, community centers encompass the widest range of formats. For example, certain centers that are anchored by a large discount department store often have a discount focus. Others with a high percentage of square footage allocated to off-price retailers can be termed as off-price centers. The size of such a center ranges from 100,000 to 350,000 square feet.

Neighborhood Center

Provides for the sales of convenience goods (food, drugs, etc.) and personal services (laundry, dry cleaning, etc.) for day-to-day living needs of the immediate neighborhood with a supermarket being the principal tenant. In theory, the typical GLA is 50,000 square feet. In practice, the GLA may range from 30,000 to 100,000 square feet.

Lifestyle Center

An upscale, specialty retail, main street concept shopping center. An open center, usually without anchors, about 300,000 SF GLA or larger, located near affluent neighborhoods, includes upscale retail, trendy restaurants and entertainment retail. Nicely landscaped with convenient parking located close to the stores.

Power Center

The center typically consists of several freestanding (unconnected) anchors and only a minimum amount of small specialty tenants. 250,000 -- 600,000 SF. A Power Center is dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or "category killers," i.e., stores that offer tremendous selection in a particular merchandise category at low prices.

¹¹ http://www.costar.com/about/costar-glossary#go_r

Outlet Center

Usually located in a rural or occasionally in a tourist location, an Outlet Center consists of manufacturer's outlet stores selling their own brands at a discount. 50,000 -- 500,000 SF. An Outlet Center does not have to be anchored. A strip configuration is most common, although some are enclosed malls and others can be arranged in a village cluster.

Strip Center

A strip center is an attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores. Open canopies may connect the storefronts, but a strip center does not have enclosed walkways linking the stores. A strip center may be configured in a straight line, or have an "L" or "U" shape.

Convenience Center

An open shopping center with fewer than half-a-dozen stores offering day-to-day necessities, such as basic groceries, dry cleaners, liquor store, video rentals, etc.

Theme/Festival Center

These centers typically employ a unifying theme that is carried out by the individual shops in their architectural design and, to an extent, in their merchandise. Sometimes the biggest appeal of these centers is to tourists; they can be anchored by restaurants and entertainment facilities. These centers, generally located in urban areas, tend to be adapted from older, sometimes historic, buildings, and can be part of mixed-use projects. 80,000 -- 250,000 SF.

General Retail

Typically, single tenant freestanding general purpose commercial buildings with parking. Many single retail buildings fall into this use code, especially when they don't meet any of the more detailed use code descriptions.